

[H.A.S.C. No. 113-70]

## MILITARY RESALE PROGRAMS OVERVIEW

---

HEARING

BEFORE THE

SUBCOMMITTEE ON MILITARY PERSONNEL

OF THE

COMMITTEE ON ARMED SERVICES  
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRTEENTH CONGRESS

FIRST SESSION

---

HEARING HELD  
NOVEMBER 20, 2013



---

U.S. GOVERNMENT PRINTING OFFICE

86-077

WASHINGTON : 2014

SUBCOMMITTEE ON MILITARY PERSONNEL

JOE WILSON, South Carolina, *Chairman*

WALTER B. JONES, North Carolina

JOSEPH J. HECK, Nevada

AUSTIN SCOTT, Georgia

BRAD R. WENSTRUP, Ohio

JACKIE WALORSKI, Indiana

CHRISTOPHER P. GIBSON, New York

KRISTI L. NOEM, South Dakota

SUSAN A. DAVIS, California

ROBERT A. BRADY, Pennsylvania

MADELEINE Z. BORDALLO, Guam

DAVID LOEBSACK, Iowa

NIKI TSONGAS, Massachusetts

CAROL SHEA-PORTER, New Hampshire

CRAIG GREENE, *Professional Staff Member*

DEBRA WADA, *Professional Staff Member*

COLIN BOSSE, *Clerk*

# CONTENTS

## CHRONOLOGICAL LIST OF HEARINGS

2013

HEARING:	Page
Wednesday, November 20, 2013, Military Resale Programs Overview .....	1
APPENDIX:	
Wednesday, November 20, 2013 .....	23

### WEDNESDAY, NOVEMBER 20, 2013

#### MILITARY RESALE PROGRAMS OVERVIEW

##### STATEMENTS PRESENTED BY MEMBERS OF CONGRESS

Davis, Hon. Susan A., a Representative from California, Ranking Member, Subcommittee on Military Personnel .....	2
Wilson, Hon. Joe, a Representative from South Carolina, Chairman, Sub- committee on Military Personnel .....	1

##### WITNESSES

Bianchi, RDML Robert J., SC, USN (Ret.), Chief Executive Officer, Navy Exchange Service Command .....	4
Dillon, William C., Director, Semper Fit and Exchange Services Division, Manpower and Reserve Affairs, U.S. Marine Corps .....	8
Gordy, Thomas T., President, Armed Forces Marketing Council .....	10
Jeu, Joseph H., Director and Chief Executive Officer, Defense Commissary Agency .....	7
Nixon, Patrick B., President, American Logistics Association .....	8
Shull, Thomas C., Director and Chief Executive Officer, Army and Air Force Exchange Service .....	6
Williams, Rosemary Freitas, Deputy Assistant Secretary of Defense for Mili- tary Community and Family Policy, U.S. Department of Defense .....	3

##### APPENDIX

###### PREPARED STATEMENTS:

Bianchi, RDML Robert J. ....	58
Davis, Hon. Susan A. ....	29
Dillon, William C. ....	93
Gordy, Thomas T. ....	128
Jeu, Joseph H. ....	80
Nixon, Patrick B. ....	102
Shull, Thomas C. ....	70
Williams, Rosemary Freitas ....	31
Wilson, Hon. Joe ....	27

###### DOCUMENTS SUBMITTED FOR THE RECORD:

National Military Family Association Statement for the Record .....	151
---------------------------------------------------------------------	-----

###### WITNESS RESPONSES TO QUESTIONS ASKED DURING THE HEARING:

Mrs. Davis .....	159
------------------	-----

###### QUESTIONS SUBMITTED BY MEMBERS POST HEARING:

Mr. Wilson .....	163
------------------	-----



## MILITARY RESALE PROGRAMS OVERVIEW

---

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON ARMED SERVICES,  
SUBCOMMITTEE ON MILITARY PERSONNEL,  
*Washington, DC, Wednesday, November 20, 2013.*

The subcommittee met, pursuant to call, at 2:43 p.m., in room 2212, Rayburn House Office Building, Hon. Joe Wilson (chairman of the subcommittee) presiding.

### **OPENING STATEMENT OF HON. JOE WILSON, A REPRESENTATIVE FROM SOUTH CAROLINA, CHAIRMAN, SUBCOMMITTEE ON MILITARY PERSONNEL**

Mr. WILSON. Ladies and gentlemen, the hearing will come to order. Welcome to a meeting of the House Armed Services Subcommittee on Military Personnel.

Today, the subcommittee will examine the military resale programs within the Department of Defense, specifically how the military resale community will continue to provide appreciated benefits to service members, their families, and retirees in a fiscally constrained environment.

The military exchanges, the commissary and the Morale, Welfare, and Recreation programs are acknowledged as highly valuable and appreciated benefits that support Active Duty retention, the well-being of the military community, and the readiness of the force. The commissaries, exchanges, and Morale, Welfare, and Recreation programs have long provided extraordinary savings to their patrons as well as job opportunities for military spouses and families, which I view as critical during the past years of economic challenges.

The continued fiscal pressures on the defense budget have caused the Department and services to look at initiatives to reduced appropriated funding for these programs. As Congress debates the devastating reductions to the defense accounts that are associated with the sequestration, it is critical that we hear from the Department and the military resale community to reinforce the importance of these programs to the All-Volunteer Force, but also, how the resale community is working together to ensure this valuable benefit is maintained even in a fiscally constrained environment.

I remain a strong supporter of the military commissaries, exchanges, and the Morale, Welfare, and Recreation programs and will continue to work to ensure these programs continue to provide the effective benefits our men and women in uniform deserve.

I agree with President Obama, who spoke at Camp Pendleton on August 7, 2013, where he said, quote, "Hardworking folks are getting furloughed, families getting by on less, fewer ships available

for your training exercises, the commissaries your families rely on closed a day a week. We can do better than that. That is not how a great nation should be treating its military and military families,” end of quote.

I would like to welcome our distinguished witnesses: first, Ms. Rosemary Freitas Williams, the Deputy Assistant Secretary of Defense, Military Community and Family Policy, Office of the Under Secretary of Defense for Personnel and Readiness; Mr. Robert J. Bianchi, Rear Admiral, retired, Chief Executive Officer of the Navy Exchange Service Command; Thomas Shull, Director and CEO [Chief Executive Officer] of the Army and Air Force Exchange Program; Mr. Joseph Jeu, the Director and Chief Executive Officer of the Defense Commissary Agency; Mr. William C. Dillon, the Director, Semper Fit and Exchange Services, Manpower and Reserve Affairs Department, headquarters to the U.S. Marine Corps; Mr. Patrick B. Nixon, president, American Logistics Association; Mr. Thomas T. Gordy, president of the Armed Forces Marketing Council.

Mrs. Davis, do you have any opening remarks?

[The prepared statement of Mr. Wilson can be found in the Appendix on page 27.]

**STATEMENT OF HON. SUSAN A. DAVIS, A REPRESENTATIVE FROM CALIFORNIA, RANKING MEMBER, SUBCOMMITTEE ON MILITARY PERSONNEL**

Mrs. DAVIS. Thank you, Mr. Chairman. I also want to welcome our witnesses today.

And, to Ms. Williams, we are pleased to have you. And I recognize that this is your first testimony before the subcommittee, and we certainly look forward to your statement.

And I know the chairman introduced the rest of our panel today, and we certainly welcome all of our witnesses back. They are familiar to most of us. And we are glad that you are here today.

This is our annual hearing on military resale and Morale, Welfare, and Recreation [MWR] programs. It is important that we hold this hearing each year and especially in these difficult economic times because the resale programs and associated MWR programs, as well, are so important and so valuable to the military community.

Our Nation has been at war for nearly 12 years, and while the pace of deployment and the number of troops being sent into harm's way is decreasing, we know that the demand for support services is not decreasing. And, in fact, we see many accounts where it is doing just the opposite. Necessities like food and clothing as well as larger programs like marriage counseling, child care, transition programs, and alcohol treatment have all increased in need.

The transition to a smaller force and the continued support that our military service members and their families will need is important if we are to ensure that the quality of life that they have earned is provided for. The reality of the current budget is upon us, and efforts to look at eliminating commissary and exchange benefits as a way to reduce costs are again being considered. Yet,

we know that the commissary remains the most valued benefit by service members, retirees, and their families.

And except primarily for second-destination funds, the exchanges actually provide a monetary benefit back to its customers through the dividends that support MWR programs. And the sad fact remains, however, that budget reviews tend to look only at the bottom line and fail to assess the secondary or even the unintended consequences of their recommendations.

That said, the commissaries and exchanges and MWR programs have a fiduciary duty to ensure that they are providing the most cost-efficient benefit. Because commissaries are supported by taxpayer dollars and exchanges are supported by service member dollars, both systems need to ensure that they are doing all that they can to best utilize the resources that are provided.

So I look forward to an open and frank discussion on these issues. The dedication and the commitment of our military resale employees have provided to military families under these ongoing and challenging conditions. They have been outstanding, and we are thankful for their contributions.

Thank you so much, Mr. Chairman. I look forward to our witnessings.

[The prepared statement of Mrs. Davis can be found in the Appendix on page 29.]

Mr. WILSON. Thank you, Mrs. Davis.

I now ask unanimous consent that a statement from the National Military Family Association be included for the record.

Without objection, so ordered.

[The information referred to can be found in the Appendix on page 151.]

Mr. WILSON. Ms. Williams, we will begin with your testimony.

As a reminder, please keep your statements to 3 minutes. We have your written statements for the record. Following your testimony, each subcommittee member will participate with questions in rounds of 5 minutes each until adjournment.

**STATEMENT OF ROSEMARY FREITAS WILLIAMS, DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR MILITARY COMMUNITY AND FAMILY POLICY, U.S. DEPARTMENT OF DEFENSE**

Ms. WILLIAMS. Thank you, Chairman Wilson, Ranking Member Davis, for your strong support of the quality-of-life programs for military members, their families, and survivors. Your leadership and emphasis have kept the focus on the programs that help keep our military strong and resilient.

Today, perhaps more than ever, the members of our military community need to count on the resolve and commitment you have so consistently displayed over the years for the very programs they continue to depend on so heavily.

I am honored and humbled by the opportunity to serve as the Deputy Assistant Secretary of Defense for Military Community and Family Policy. Although I was sworn in just a little over 4 months ago, I bring to this position a passion for those who serve and the people who support them.

My husband served as a marine for 20 years and deployed shortly after we were married, so I feel a special bond with those who

must endure the heartache of family separations, the worry and fear of multiple deployments, and challenges of frequent moves. These experiences, as well as my professional work with the Veterans Administration and military family nonprofits, reinforce to me the value of the programs that now fall into my portfolio—rather, excuse me, they do not fall “into” them; they fall “in” the portfolio. Excuse me.

My written statement highlights some major recent achievements within the military family, community and family policy organization. The statement then shifts the focus to the current outlook for us and our resale partners in today’s reduced budget environment. Finally, it provides a quick preview of some preliminary results from our Task Force on Common Services as well as some other transformational initiatives that hold great potential for our future.

As you well know, these are trying times for our military community. Our people face unique challenges associated with their military service: over a decade of engagement in hostile operations overseas; multiple frequent deployments, many for extended periods of time; uprooting the family for a move to a different location for the needs of the service member; and the continued uncertainty about the budget and funding levels. Our civilian members have not been spared: furloughs that cut into the family paycheck, hiring freezes, and elimination of pay raises and awards.

Keeping in mind that sequestration has only been in effect about 6 months. And without some relief, the Department faces 9 more years of steeper funding cuts and ever more unprecedented fiscal uncertainty. At the very time of our community’s greatest need, these funding cutbacks pose great risk to the programs and services on which our military members and their families depend on for resilience.

Do not get me wrong. We are willing to do our part. My written statement shows that we are looking for efficiencies and ways to transform our programs to meet these fiscal realities. But we can’t expect the service members, past and present, and their families to shoulder this burden alone and to meet these challenges with even more of their personal sacrifices.

I look forward to working with this subcommittee to meet the needs of our military community, and thank you for your continued support. I welcome your questions.

[The prepared statement of Ms. Williams can be found in the Appendix on page 31.]

Mr. WILSON. Thank you very much, Ms. Williams.  
And Admiral Bianchi.

**STATEMENT OF RDML ROBERT J. BIANCHI, SC, USN (RET.),  
CHIEF EXECUTIVE OFFICER, NAVY EXCHANGE SERVICE  
COMMAND**

Admiral BIANCHI. Chairman Wilson, Ranking Member Davis, and distinguished members of the subcommittee, I appreciate the opportunity to appear before you today.

Maintaining our Nation’s commitment to our military members and their families’ quality of life remains a key factor in ensuring a strong military and an All-Volunteer Force. As a nonappropriated



funded entity, it is important to note that NEXCOM [Navy Exchange Service Command] kept faith and maintained that commitment through the recent government shutdown. Navy exchanges and Navy lodges remained open, sending a strong signal to our service members and military families that their needs had not been forgotten.

The NEXCOM enterprise has broad reach and touches many aspects of Navy life. Every day, our military families around the world rely on us for quality products, uniforms, casual dining, hair care, auto services, gas, laundry, that touch of home, and more.

We provide lodging for our military families when they change duty stations. For sailors and marines at sea, we provide essential items and funds to support their recreational needs. We help sailors and families stay connected with personal calling at sea and Internet and cellular services ashore.

And at overseas locations, NEXCOM delivers the commissary and exchange benefit where a standalone commissary is not economical and provides school lunches for the Department of Defense education activity.

Unlike other government programs, we operate as a true business. We have always and will continue to drive internal efficiencies to reduce costs and seek new opportunities to drive top-line sales. Recently, we consolidated buildings and automation in our Northeast Distribution Center, attriting 50 full-time positions while increasing our throughput by 10 percent. Our store lighting retrofits are yielding over 9 million kilowatts in energy savings annually, with a cost avoidance of over \$800,000.

Through our partnerships with AAFES [Army Air Force Exchange Service], the Marine Corps, DeCA [Defense Commissary Agency], Coast Guard, Veterans Canteen, and our own Navy MWR, we will continue to implement joint efforts that reduce costs in our programs.

While we are a nonappropriated funded entity, we do receive limited appropriated funds, and primarily these for overseas support. Based on the savings we provide Navy families and our dividends that support Navy quality of life, we actually provide a 6-to-1 payback on that appropriated fund investment.

With the pressures on appropriations, we are concerned about potential reductions in appropriated fund support to our programs. As such, your continued support for sustaining second-destination transportation funding is critical to our ability to serve these families overseas.

Through our customer satisfaction surveys and feedback on social media, we know our military families value and appreciate the benefits we provide. A recent social media posting summed it up best: "I like shopping at the NEX [Navy Exchange] because it is a safe environment. I like going into the store and being made to feel like family."

We can't do this alone. I want to acknowledge the dedicated support we receive from our industry partners and from you on the committee.

I look forward to your questions and thank you very much.

[The prepared statement of Admiral Bianchi can be found in the Appendix on page 58.]

Mr. WILSON. Thank you very much, Admiral.  
Mr. Shull.

**STATEMENT OF THOMAS C. SHULL, DIRECTOR AND CHIEF EXECUTIVE OFFICER, ARMY AND AIR FORCE EXCHANGE SERVICE**

Mr. SHULL. Mr. Chairman, Ranking Member Davis, and members of the subcommittee, thank you for the opportunity to speak today.

Since this is my first appearance before the committee, please allow me to introduce myself. I am the son of a career Army officer. After graduating from West Point, I served for more than a decade as a soldier before embarking on a career in business, primarily in retail. In the past, I have served as a CEO of a major retailer, a large direct marketing corporation, and a top regional packaged goods company. Joining the Army and Air Force Exchange Service has been like coming home. There is no greater honor than serving those who serve.

Although we are bringing a fresh approach to the 118-year-old exchange benefit, our passion for serving the military family and saving the American taxpayer money remains steadfast.

We have taken a proactive approach to reduce costs. In the last 17 months alone, the Exchange has lowered overhead expenses by \$100 million. We have decreased full-time staffing by more than 3,000 while simultaneously reducing costs related to transportation, utilities, travel, supplies, and personnel moves. Drawing upon commercial best practices, dividends to MWR have gone up approximately 10 percent, as expenses, especially overhead, continue to go down.

As we improve efficiencies we continue to exceed shoppers' expectations. On August 1, the Exchange announced a major investment in an enhanced Web site with improved order of fulfillment. Online and off, the Exchange is intensifying the presence of national brands such as Michael Kors, Ralph Lauren, Apple, Under Armour, Estee Lauder, New Balance, and Walt Disney. Thanks to a recent agreement with Disney, for the first time in the organization's history, the Exchange is now offering first-run movies in the continental United States.

Our associates bring a special skill set and passion to our theaters, restaurants, and stores, and many have a direct connection with those they serve. Today, 30 percent of the Exchange team identifies themselves as a spouse or other family member; 13 percent are veterans; and 434 wounded warriors serve in our ranks.

I want to thank my fellow military resale partners, vendors, and military support organizations. We stand united with you in our common pursuit to enhance the military community's quality of life.

Mr. Chairman, Ms. Davis, and other members of the subcommittee, please allow me to thank you for the continued support that you give us each day. Together, we ensure that wherever service members are, an exchange is there to support them. Our operations increase the combat potential of America's forces and enhance the probability of mission success for our troops and our country.

I look forward to your questions.

[The prepared statement of Mr. Shull can be found in the Appendix on page 70.]

Mr. WILSON. Thank you very much, Mr. Shull.

And Mr. Jeu.

**STATEMENT OF JOSEPH H. JEU, DIRECTOR AND CHIEF  
EXECUTIVE OFFICER, DEFENSE COMMISSARY AGENCY**

Mr. JEU. Chairman Wilson, Ranking Member Davis, members of the subcommittee, I am pleased to update you on DeCA's progress this past year.

We have been engaged in a number of initiatives to improve the delivery of the commissary benefit as well as assisting the Department in improving the quality of life of service members and their families. While detailed more fully in my statement submitted for the record, those projects include enhancing our sustainability program, revitalizing our construction program, implementing online ordering and curbside pickup, and providing a venue for the Department to deploy the Healthy Base Initiative program.

It has been a year filled with challenges which significantly impacted commissary patrons. However, these challenges demonstrated that the commissary continued to play an important role in the economic well-being of our military families.

A prime example would be what happened on October 1st, the first day of the government shutdown. That day was our highest sale day ever, totaling over \$30.5 million. This amount is double our normal business day, with our military families coming to the commissary to stock up. With both the Department-wide hiring freeze and employee furloughs required to meet sequestration requirements and the recent government shutdown, customer service suffered greatly. With DeCA's high turnover rate of lower-graded employees, over two-thirds of our store fell below the level required to effectively run the store. While the Department has provided hiring freeze relief, the cure was not immediate because of the new employee vetting time lag.

The closure of your stores for 1 day a week for 6 weeks impacted customers further. Customer complaints rose by over 50 percent and hit an all-time high during the furlough. The recent shutdown also hampered commissary patrons, our employees, and our suppliers.

Although we encountered some challenges associated with the sequestration and government shutdowns, we are forging ahead with ongoing initiatives to seek innovative, efficient method of commissary benefit delivery.

In closing, I would like to thank the members of the subcommittee as well as each Member of Congress for their continued support of the commissary benefit. I will be happy to answer any questions you may have.

[The prepared statement of Mr. Jeu can be found in the Appendix on page 80.]

Mr. WILSON. Thank you very much, Mr. Jeu.

And we proceed to Mr. Dillon.

**STATEMENT OF WILLIAM C. DILLON, DIRECTOR, SEMPER FIT  
AND EXCHANGE SERVICES DIVISION, MANPOWER AND RE-  
SERVE AFFAIRS, U.S. MARINE CORPS**

Mr. DILLON. Chairman Wilson, Ranking Member Davis, and distinguished members of the subcommittee, thank you for inviting me here today to discuss Marine Corps exchange and retail programs.

The Marine Corps Exchange is a vital part of the overall non-pay compensation package for marines and their families. We measure our success by our ability to provide unparalleled customer service, premier facilities, and valued goods and services at savings, while also returning a significant dividend to the Marine Corps community. I am also proud to note that nearly 30 percent of our retail employees are military family members.

Marine Corps retail programs are not immune from fiscal challenges, but challenges we believe bring great opportunity. The Marine Corps Exchange aims to execute programs in the most resourceful way as part of our regular business practice. We are assessing our business and support capabilities to increase these efficiencies. We are also collaborating with our sister services whenever possible and leveraging our partnership with industry. Many of these efforts have already provided significant cost savings, and we look forward to additional opportunities to expand efficiency.

With Marine Corps Exchange, marines and families can rely upon a high-quality product at a fair, competitive price and know that the proceeds are reinvested in the community, creating a stronger Marine Corps.

I appreciate the subcommittee's oversight and continued strong support of retail activities, and I look forward to your questions.

[The prepared statement of Mr. Dillon can be found in the Appendix on page 93.]

Mr. WILSON. Thank you very much, Mr. Dillon.  
We now proceed to President Nixon.

**STATEMENT OF PATRICK B. NIXON, PRESIDENT, AMERICAN  
LOGISTICS ASSOCIATION**

Mr. NIXON. I like that title, sir.

Thank you, Mr. Chairman. It is an honor to be here today representing the ALA and our affiliate organization, the Coalition to Save Our Military Shopping Benefit.

The sun never sets on the military resale system. Every day, thousands of exchange and commissary employees and industry members work hard to take care of our military. It is a partnership that brings together the best of the private sector and the best of the public sector to care for the best people in the world.

And this subcommittee can be proud of its support and advocacy for a program that serves so many with so much at so little cost. And we are grateful to you for fully supporting funding for these programs in this year's budget.

We owe it to our military people to do the right thing right now. The specter of the sequester must be lifted immediately, and budget stability must be returned to the Department of Defense [DOD].

It has been a tough year, particularly for commissary employees. They must feel like they live in Antarctica, with hiring freezes, pay freezes, funding freezes, and travel freezes, yet they continue to deliver.

On the exchange front, we are concerned about the unintended consequences of sustainability and local procurement legislation and the impacts of the Bangladesh Fire and Safety Accord. In addition, it is time to refresh the Armed Services Exchange Regulation to better reflect the marketplace, from Internet sales to outdated rules on automobile sales.

And even though the commissary and exchange employees operate in the cold world of budgetary whipsaw, they continue to give a warm welcome to millions of patrons every day. We salute them for all they do each and every day.

Today, it is in vogue to talk about efficiency, to talk about hiring veterans and military family members, to talk about keep taking care of people in a constrained environment. This may be new to a lot of defense programs, but it is not new to the military resale programs.

Exchanges and commissaries have been taking major costs over the past decade—taking out major costs over the past decade and hiring thousands of veterans and family members. Hundreds of millions in annual cost have been pared from these programs, and managers have it in their DNA to continue to cut cost. Commissaries are sharing in the continuing resolution, sequestration, and budget pain and have taken more than their fair share of reductions.

But that may not be enough to feed the budget beast. Some defense planners want more. They seek to reduce the commissary budget far beyond that being asked for any other defense program. DOD shouldn't punish success. That will send the wrong message to the rest of DOD.

Congress established the Compensation Commission to carefully and methodically weigh and balance costs. This commission should be allowed to do its work and present a sensible and coherent package and roadmap to the administration and the Congress and not arbitrarily hack away at any particular program without careful analysis and consultation with Congress.

ALA's economic report issued earlier this year elucidates many of the contributions of these programs with a high return to the DOD and the Nation for the resources provided. We don't fear analysis. We fear no analysis. It is like the Old West hero, Paladin, with a twist: Have facts, will travel.

The military resale program should be emulated, not decimated. My prepared statement lists the multitude of reasons that the system must be maintained and allowed to prosper. The President said that "closing commissaries is not the way a great Nation should treat its military and their families." We couldn't agree more.

I look forward to your questions.

[The prepared statement of Mr. Nixon can be found in the Appendix on page 102.]

Mr. WILSON. Thank you very much, Mr. Nixon.

Now we proceed to President Tom Gordy.

**STATEMENT OF THOMAS T. GORDY, PRESIDENT, ARMED  
FORCES MARKETING COUNCIL**

Mr. GORDY. Thank you, Mr. Chairman. And I agree with everything he said.

Good afternoon, Mr. Chairman, Ranking Member Davis, and distinguished members of the Personnel Subcommittee. And thank you for the invitation to offer comments on behalf of the members of the Armed Forces Marketing Council regarding the military resale services and the financial benefits they provide to support the quality of life of our service members and their families.

Today, the commissaries and exchanges continue to deliver a world-class non-pay compensation benefit to military families. While there have been strong headwinds in the form of furloughs and diminishing budgets as a result of sequestration and continuing resolutions as well as the government shutdown, the leaders and the associates of the resale systems are to be commended for the great work they have done in a very challenging year.

As we delve into the issues pertaining to military resale today, I would like to make it clear that, in the view of the Armed Forces Marketing Council, the commissaries and exchanges are not broken. In fact, they do their part, in partnership with industry, to become more efficient so that they may lower costs and find ways to continue providing significant savings to military families. It is the nature of the business that they do so.

However, due to declining budgets, they are being asked to consider significant cuts to their appropriated support that go beyond efficiencies to a real degradation and/or elimination of the benefit for military patrons, particularly those in CONUS.

While we understand the plight of the Department of Defense and the budgetary challenges it and the military services face, we are also aware and sympathetic to the fact that reductions in taxpayer dollars will get passed on to the military families in the form of higher prices or a complete loss of benefit. In other words, it would be taxing military families for the delivery of their own benefit or breaking faith with them.

There are two numbers that I would like you to keep in mind today. The first is \$600 million. That is the approximate level of appropriated support proposed to be cut from DeCA's budget, resulting in the closure of CONUS stores as called for in the Resource Management Directive, plus the amount of overseas shipping that some had discussed earlier in the year from being cut from the exchanges.

The second number is \$2.1 billion. That is the estimated amount of non-pay compensation military families would lose if those cuts and associated closures were to be implemented.

We are very concerned that the short-term budget decisions made today that degrade or eliminate the resale benefit will have adverse long-term impacts on our military families as well as our ability to retain a ready All-Volunteer Force.

Chairman Wilson, thank you once again for the opportunity to provide insights on military resale today, and I look forward to your discussion.

[The prepared statement of Mr. Gordy can be found in the Appendix on page 128.]

Mr. WILSON. Thank you very much, Mr. Gordy.

And we will begin now with questions. And Craig Greene, we note that he will maintain the time carefully, including on me.

As we begin, normally, we hear from you. I can give you a report, multigenerational. My mother-in-law, a very proud Marine widow, and my wife, a very proud National Guard retiree wife, were at Fort Jackson last week. It was world-class at the commissary and very meaningful.

And then, for our family, I particularly appreciate the overseas capability. And I wish more Americans understood how important it is to have a system that is domestic and overseas. And we have part of our family, Navy, serving in Southern Europe. And then today is a special day. My youngest son is celebrating his birthday in Central Asia. So it is—but I know this, that they have capabilities of having a very positive lifestyle due to your service, so I want to thank you.

Mr. JEU, we have been told that an independent study was directed as part of the Resource Management Directive [RMD] to propose changes to the Defense Commissary Agency operations that would accommodate an operating cost reduction as well as focusing on commissary operations, primarily on overseas, reducing appropriated funding.

What is the status of the study, and when will the Department be able to share the results?

Mr. JEU. Mr. Chairman, with the sequestration, the Department is reviewing all of its programs, and nothing, including commissary, is off the table.

And I can tell you, the Department has not made its decision regarding the RMD, and I believe it is inappropriate for me to discuss any of the details of the RMD at this time.

Mr. WILSON. Well, as soon as you can release it, please let us know. Because, again, I agree with Mr. Gordy, this is a world-class provision, appreciation of our military families.

Another question, Mr. JEU: What initiatives has the Defense Commissary Agency taken to become more efficient in anticipation of reduced appropriated funding?

Mr. JEU. Mr. Chairman, DeCA has a long history of becoming a model agency. Over the years, we have taken an effort to become more efficient. And, in fact, over the past 20 years, we were able to reduce our funding requirement by \$700 million and, also, we reduced our inventory by \$500 million.

Some of the examples are we eliminated warehouse functions and we went directly to vendor-delivered, relying on the private sector. By doing so, we were able to eliminate positions as well as eliminate stock funds. Or the other one would be centralizing accounting, voucher functions and automating.

And so we have a long history. Even then, every day we are looking for more and more and greater efficiency. And so I think we are very proud of what we have done.

And a final thought is, we do not have any low-hanging fruit. I think there is some misperception out there; perhaps there is some magic out there for DeCA to do. Sir, all those are gone, and what we have left is minor efficiencies.

Mr. WILSON. Thank you very much.

And, Mr. Nixon and Mr. Gordy, has there been dialogue with the private-sector resale community to help increase efficiencies as a resale community to ensure the commissary benefit is sustained?

Mr. NIXON. Yes. And, Mr. Chairman, this is really a model for a partnership between the public sector and the private sector for looking for efficiencies in operations. And, continually, there are standing committees that work with the leadership of all of the resale commands to look for opportunities to improve supply-chain efficiency.

And particularly, most recently, a blue-ribbon panel to look at supply-chain efficiencies has been established, led by David Sisk from Procter & Gamble. It is working with each one of the resale commands to identify opportunities to bring best business practices into the military resale business channel and drive efficiencies.

But it is important to note that, because these operations work as businesses, every decision they make is based on efficiency and effectiveness. It is in their DNA, and they do it each and every day. This is just an additional opportunity to partner with them to look for additional opportunities.

Mr. GORDY. I would just like to also add that the memberships of the ALA, all of our members are members of the ALA, but our members are specifically brokers who represent manufacturers. And the brokers themselves hire employees who work in the stores so that DeCA does not have to hire employees. And so many of the folks who stock the stores are paid for through the private sector, and our folks are part of that solution.

And these are efforts that have been going on for decades; these are not new. And this is to help DeCA find ways that it can help reduce its appropriated support. And so when you take a look at the commissaries and the exchanges, it is clearly a public-private partnership so that this benefit can be delivered in a world-class way.

Mr. WILSON. And with the technological advances of barcode, QR code, it is really exciting to me to see what can be done for military families with greater efficiency worldwide. And, indeed, I have a personal interest in that.

At this time, we will proceed to Ms. Davis.

Mrs. DAVIS. Thank you, Mr. Chairman.

And, Ms. Williams, again, it is good to have you here.

I know from the remarks and your presentation that there has been a review of military family support programs under the Task Force on Common Services. And you mentioned a number of areas of interest there. Could you very briefly, I guess, summarize for us some of the preliminary findings?

And one of the things I found interesting about that, it sounded like there are some changes that are being recommended, and at the same time people are saying, oh, why haven't we done this before? You know, we could have brought folks together and managed this better.

Could you talk a little bit about that task force's findings?

Ms. WILLIAMS. Yes, ma'am.

As you mentioned, the Task Force on Common Services, it was established to review the total cost of providing common services for service member and family support programs DOD-wide. So it



is really not the installation level, ma'am, it is more of the global look, how we deliver and not what we deliver, if you will.

They concluded the 5 months of the weekly meetings and really intense study of the overhead functions. And at the end of the day, we are compiling a final report on the discussions, if you will. And within that report, which will be ready by the end of this year, we will have a good sense of the recommendations well laid-out.

Concurrent to that, if you will, we have launched the data-gathering piece. So, respectfully, if you and I decide it is a good idea to combine something, we still need the data to prove the business case. So by bringing all this data in concurrently and building a business case, it is an easier sell and an easier way to move forward on these recommendations if they all stick, if you will.

That report, where it is the business case, will be done this time next year. It is rather intensive. They looked at 15 separate functions. One good example would be in fact, this one has already launched. There were a lot of "a-ha" moments in the meetings, as I understand it. The services have agreed to create a common standard chart of accounts. So it is sort of dry stuff.

But at the end of the day, if we can get all the services together in one effort, there are some significant efficiencies there. And that is what we are looking at, ma'am, is efficiencies.

Mrs. DAVIS. Can you actually evaluate which of those efficiencies are the ones that are going to help make your case more than perhaps others?

Ms. WILLIAMS. Yes, ma'am. It is a very exciting time, actually. And it is the first time the services have gotten together and really taken a hard look at these overhead functions.

And they—we all face the same battle. You know, we are cut down to bone. We have no—we have nothing left to cut. So if we are going to limit the impact on the end-user, our service members and families, in some cases retirees, how do we do that? How do we deliver these with minimum impact? There is going to be impact, no question, but how do we minimize that impact?

So, yes, ma'am, we have great confidence in that.

Mrs. DAVIS. We have a hard time when it comes to scoring items trying to show that in the long term we actually save money although in the short term perhaps there is some additional cost there.

Ms. WILLIAMS. Yes, ma'am. And we really are looking at it for efficiencies first, and the business case, obviously, the money follows, as well, the savings follow, as well.

Mrs. DAVIS. To the rest of you, one of the things that frustrates me is making the case to our colleagues that, in fact, we actually have to get our act together here in Congress and deal with this budget in order for you to facilitate and to be able to prepare for the work that we expect you to do, that is being done every day. And we know the charges that you have and the commitment that you have to doing that properly.

How can you, I guess, encapsulate, sort of, the need to get that done so that the benefits that we provide our men and women who serve and their families actually reaches them? If you had—I guess it is sort of the elevator speech. I mean, what is it that you want

Members of Congress to know that is going to kind of move them to understand that we need to get our act together here?

Ms. WILLIAMS. I will take a stab at it, if I may, ma'am.

A couple of things. Now more than ever, our military and their families need the programs and services we provide. After 12 years—and now more and more are coming home, which means there is going to be greater need for these programs and resources. And it is only slightly ironic that we are talking about pulling them back. We have nothing left to cut.

So when we talk about daycare, for instance, here is a really solid example. Many of our installations and bases are in places where quality daycare is just not available. And quality daycare is not just about people going to work. It is also about respite. It is about taking care of the family, and resiliency, the mental and health—mental and physical well-being of our community.

In the general public, in the general population, our childcare centers are—8 to 10 percent are nationally accredited. In the military, 97 to 98 percent are. It is remarkable. It is considered the gold standard for child care by organizations such as Child Care Aware.

Our fitness programs are not just about keeping fit and passing the PT, which, of course, is very important; it is togetherness for families. It is burning adrenaline for those hard-charging single members that maybe can get themselves in a pickle out off the installation if they are not careful, if they are not burning off that energy. And these are state-of-the-art. So when you are—so there is not only—it is not just a readiness issue and a resilience issue; this is also a national security issue and a moral imperative, if you will.

And we can lay that out in a number of different ways for you, if you would like. I know National Military Family Association has done a remarkable job capturing some of those anecdotes and some of those situations on the installation level, and they are quite powerful, ma'am.

Mrs. DAVIS. Thank you.

Mr. WILSON. Thank you, Mrs. Davis.

We now proceed to Congressman Joe Heck of Nevada.

Dr. HECK. Thanks, Mr. Chairman.

Thank you all for being here. And as someone who has used commissaries and exchanges throughout Europe, Iraq, Afghanistan, and all across this country, I can attest to what a valuable service and benefit they are. In fact, we still shop at the Nellis Commissary once a month. So it certainly is an important benefit.

But, with that, I mean, as you all have clearly stated, we face fiscal challenges. And while nobody wants to, as has been said, you know, balance the budget on the backs of our service members or our veterans, there are going to be some hard decisions to make.

And so, Mr. Jeu, I would ask you, you know, some of the ideas that have been thrown about specifically for the Defense Commissary Agency is increasing the surcharge from 5 percent to 10 percent or going to an enhanced commissary where you may have some other items that you could sell at a profit to help offset expenses or eliminating the second-destination transportation charges and increasing prices by 2 to 3 percent to cover those costs.

Do you have an opinion on those three potential items to help offset the costs?

Mr. JEU. First of all, I have to say that the commissary benefit is part of non-pay compensation package, and it is valued by military members as the number one or number two.

All those options you mentioned, while it is viable, it has direct impact on military family members. Because what that will do is it will shift cost burden onto our military families. So, in each of those scenarios, the savings will go down by whether 5 percent or 3 percent, whatever the percentage you want to change, savings will go down by that much. So, therefore, the burden has now shifted—

Dr. HECK. But I guess some could argue that that small—and I am not saying I am pro any of these. But, you know, if we, let's say, increased the surcharge from 5 to 10 percent. In your written testimony, you say that a family of four saves, on average, about \$4,500 a year at the commissary. So they would save \$4,275 or lose \$225 a year. Sure, you know, to an E-3, E-4, that is going to be a big thing.

Mr. JEU. Yes, sir.

Dr. HECK. But to higher ranks, it wouldn't necessarily be a big thing. And if that shift is what allows the programs to continue to function, we have to look at the cost-benefit of each one of these. And I would encourage you to take that kind of a perspective.

Mr. JEU. Absolutely, I think senior leaders are taking all this into consideration. Yes, sir.

Dr. HECK. To the exchange directors, somebody has to help me understand why we have to have three, you know, separate exchange directorates. And just like we have Defense Commissary, why don't we have Defense Exchange?

Admiral BIANCHI. Sir, I think the primary reason that we operate in this manner is that we are, at least in my case, I am an integral part of the Navy. I am an Echelon 3 command under the direction of the Secretary of the Navy, and I am involved in more than just retail. While we have the retail component, I also am part of the messaging, the strategic messaging of the Department, the family and personnel readiness aspect. And so I believe if you asked my senior leadership, they would say that I am woven into the fabric of the Navy leadership and Navy mission readiness.

That being said, this question has been raised many times, and we have undertaken and we are constantly in the process of looking at areas where we may be able to have cooperative efforts where we can save money. There are numerous examples I could state for you where we have joint contracting efforts and so forth.

But I think the bottom line is that we each are optimizing our operations. And just like you wouldn't necessarily kludge Ford and GM together and necessarily get a better organization out of it, I think this allows us to meet the needs of our service members while still maintaining operational efficiencies cooperatively without having to create one mega organization, so to speak.

Dr. HECK. Any of the other exchange reps want to just ditto it, or do you have something else to add on that issue?

Mr. DILLON. Yes, sir. I would just like to offer that, from the Marine Corps standpoint, you may or may not be aware of the fact

that we already are a combined operation. Not only do I have responsibility for the exchange, but I also have responsibility for MWR programs.

Years ago, we consolidated those functions so that we could become more efficient. All of our back-office functions serve both the exchange as well as the MWR programs. So we have taken that step to become as efficient as possible.

We are looking at additional reductions in efficiencies and overhead as I speak today. But as part of the studies that we have done in the past, actually from a Marine Corps standpoint, to combine the operations it would actually cost us more money than it does to operate our exchange and our MWR today.

Dr. HECK. Thank you.

Thanks, Mr. Chair. Yield back.

Mr. WILSON. Thank you, Dr. Heck.

We now proceed to Congresswoman Madeleine Bordallo of the beautiful territory of Guam.

Ms. BORDALLO. Oh, thank you very much, Mr. Chairman. I always appreciate that because Guam is a small place and it is not mentioned very often.

I want to thank you for calling this. I remember going to the hearing last year, same—I think you have an annual hearing on this.

And I want to thank all the witnesses for their testimony today.

I am going to focus on commissaries and exchanges. And being brought up on Guam, I visited commissaries and exchanges for many, many decades. And most recently on travels, a CODEL [congressional delegation] to Australia and Singapore, I was able to go into—we had a few minutes before boarding the plane to come back to Washington, so we visited a commissary and the exchange there. And, believe me, you have made a great deal of progress from the very first days. Now you see all these displays and merchandise and eateries, all very up-to-date. I saw those luxury goods. I was tempted.

And so, Mr. JEU, I think this question would be to you. And I have noticed that you put out a policy—Director's policy here. I am going to ask you, I am aware of the policy on sustainability. Now, while I appreciate your efforts to develop this policy, I did notice specific goals and targets for the acquisition of sustainable products.

So can you please comment on how your agency intends to monitor any objectives you may have in place to provide fresh and healthy products to military families and how your agency will maintain awareness of these goals across the many individual commissary stores?

Also, could you please comment on the criteria used to determine when DeCA will choose to pursue locally grown products? In the last NDAA [National Defense Authorization Act], I introduced a green grocery amendment. And so I am wondering, how is this going and how much of this policy have you implemented so far?

Mr. JEU. Okay. I think that, in terms of a study, I believe this falls under another office.

But in terms of our purchase through local, we try to buy locally whenever it makes sense. We look at price, quality, and customer

preference. And I say price because, particularly in overseas, it is a little bit more sensitive in overseas area, and particularly like Guam as well, because the Congress decided that cost of goods overseas should be no higher than cost of goods in U.S. So that is why we receive a second-destination fund.

And so, especially overseas, including Guam, we look at price as well as quality and customer preferences, but, whenever possible, we try to buy locally. So, in Guam's case, we do buy from 15 local vendors from the local community for items such as bakery items or snack items, some miscellaneous drinks, and so on. So we—

Ms. BORDALLO. Vegetables and fruits?

Mr. JEU. In limited cases, but we do encourage those. And we encourage not only in Guam but elsewhere throughout the U.S. Buying locally does make sense.

For example, produce particularly. I was at Fort Jackson commissary just last week. And when I was there, I met W.P. Rawl & Sons. And they were there, and they were demonstrating their produce, cooking and so on. And I met their third-generation farmer, and he was so thankful for DeCA because we are buying locally. And he said he is selling all the greens to the commissary and not only at Fort Jackson but all the other commissaries in South Carolina.

We do the same thing on seafood. We try to buy locally. And, in fact, on the domestic seafood, sales went up by 6.6 percent. That is far outpacing the sales from other sources.

So, to summarize, really, we do try to buy locally whenever possible, considering all those factors: quality, price, and customer preferences.

Ms. BORDALLO. Thank you, Mr. Jeu. I really appreciate that. I am very grateful.

But, Mr. Chairman, I would like to find out—do you have—I noticed you mentioned some statistics there, numbers and how many farmers and so forth. And I think you particularly mentioned Guam.

Would there be some way that you could provide us a report on how it is going across the Nation? Would that be too difficult? You said—

Mr. JEU. We have 15 VAT [value-added tax] vendors, and I could give you a list of those. And there is amount and all those.

Ms. BORDALLO. Right.

Mr. JEU. Yes, I could do that.

Ms. BORDALLO. I think the committee would appreciate to see how this program is progressing. So if you could provide that.

[The information referred to was not available at the time of printing.]

Ms. BORDALLO. And thank you, Mr. Jeu, very much for your comments.

Thank you, Mr. Chairman. I yield back.

Mr. WILSON. Thank you very much, Ms. Bordallo.

And we have a special Member, Congressman Brad Wenstrup. He is doing his part for a multigenerational commissary and exchange. He has a brand-new baby at home.

Congressman Wenstrup of Ohio.

Mr. WENSTRUP. Thank you, Mr. Chairman.

Thank you all for being here.

And, you know, I will say, as a service member—I still serve in the Reserve—that, you know, the commissary and the PX [Post Exchange] is—there is some morale value to that, I truly believe that, for our troops. I think it is appropriate to be affiliated with MWR. And it also gives, I think, people, military families, an opportunity to shop like the rest of America even when they are not in America, and I think that there is some benefit to that, obviously.

Just a couple of questions. You know, as I look at stores like Walmart that are comprehensive, have everything from clothes to groceries, it is usually in one building, and so many times on our bases we are in two separate buildings. Is there a history to that or is there a strategy to that, to why we typically have two buildings between the exchange and the commissary itself? Does anyone know?

Mr. GORDY. I believe the law, title 10, requires the operation of separate commissaries and exchanges, and that may be the history there, sir.

Mr. WENSTRUP. Yeah, I would be curious on that because it seems, as we are looking for places of savings, especially in the future, if we can combine them into one facility rather than two separate facilities. Plus, it makes shopping a little bit easier. I mean, I think Walmart has figured it out, right?

And the other question I have is with the kiosks that we often see. What is the arrangement with them? Are they just leasing space? A percentage of profits? How does that work when we have these outside vendors that have their own kiosk within the facilities? Does anyone know?

Admiral BIANCHI. Yes, sir. We, at least for the Navy Exchange, we basically set up short-term concession arrangements with them. Typically, it is vendor-owned inventory, and we get a—we negotiate a percentage, a commission percentage, with them. It allows us to perhaps bring in sometime some niche categories or something and offer variety, excitement to the shopper.

So what you will usually find, I think, in most of our exchanges is these concessionaires will rotate through so that we provide variety, but we are negotiating favorable commissions with them. And that goes into our bottom line, you know, which drives the dividend.

Mr. WENSTRUP. Is that the same with the chain food court?

Admiral BIANCHI. Yes, sir. Well, the models are different there. We have, just like my counterparts here, some of those we run organically, and others are concessions with, you know, whether it is Subway or other vendors, so that there is a combination there.

Mr. WENSTRUP. And do they lease the space, or is it all commission? Or does it vary?

Admiral BIANCHI. I can only speak for—I know in the Navy, we provide the space. So, basically, we give them a white box, and they come in and perform under contract, yes, sir.

Mr. WENSTRUP. All right. Thank you very much.

I yield back.

Mr. WILSON. And thank you very much, Congressman Wenstrup. And we will proceed for a second round.

And, for myself, Ms. Williams, how does the risk of reductions to the second-destination transportation cost increase if the Department of Defense must comply with the cuts associated with full or partial sequestration?

Ms. WILLIAMS. Sir, so I understand your question, are we—you are talking about possibly cutting second—

Mr. WILSON. Destination costs.

Ms. WILLIAMS. Very well. Okay, thank you. Thank you for the clarity.

We have continually focused on improving efficiencies with the transportation costs through efficient use of transportation modes, cooperative efforts among the services. And they can explain a little bit more about those efficiencies, sir.

Frankly, the Department's stand is that DeCA and the military services are complying with the statutory requirement to fund the expenses of transporting commissary and exchange supplies overseas. Further, the Army reports that second-destination transportation is fully funded through the Future Year Defense Plan fiscal year 2019, and we believe the other services have made similar commitments, sir.

And, with that, I would defer to the directors.

Mr. WILSON. Thank you.

In fact, Mr. Shull, Admiral, Mr. Dillon, any comment?

Admiral BIANCHI. Yes, sir. I would offer, as Ms. Williams stated, second-destination transportation is obviously a critical element in delivering this exchange benefit.

And I believe the ability to have the fully funded account enables us to provide these comparable products and assortments overseas. It is not only an important morale factor, but it is also a necessity in many areas where these types of goods aren't available, like in Bahrain and Djibouti, for example.

But I would also offer to you it is an efficient and effective way to provide the merchandise. Because if you think about it, the kids and families overseas, they need to provide clothes for their children. They need shoes, they need other goods. You know, we can ship it economically. We can serve, in essence, as a distribution node for those products.

If you think about thousands of overseas folks going online and ordering their own items and the effect that that has on the military postal system, you know, it is kind of going to be a pay-me-now or pay-me-later. You are going to spend more money shipping it individually than you can if we bring, you know, containers of jeans and so forth overseas.

So we believe we are efficient with our second-destination transportation [SDT] dollars. We have cooperative efforts ongoing right now with DeCA, with AAFES for van stuffing. We have saved money over the years.

But, overall, I believe the loss of that would result in either having to raise prices for products for those stationed overseas, and that would drive COLA [cost of living allowance] rates up, so there, again, you are driving a cost in a different account but nonetheless it is a higher cost, or it would force us to rationalize our assortments, which I think would be going against congressional intent, which is why the statute was put in place, I believe, back in 2006.

Mr. WILSON. Thank you.

Mr. SHULL. Mr. Chairman, let me add to Admiral Bianchi's remarks. I fully concur with what he said. And I want to add, we were asked by the Army to take a very hard look at SDT this last year. And, of course, I am new to the exchange, having served for a number of years as a soldier and am now a retailer for 28 years, in restructuring, coming into the exchange system, I took kind of a different look at it.

We were able to reduce costs of SDT by about \$20 million this last year, and we project another \$10 million. But that is really the slack in the system, as I would describe it. That is the inefficiency that we—partly we allowed to occur as we ramped up to serve in a combat environment. Now that we are drawing down, there were some efficiencies to be gained.

For example, shipping via surface versus air for various products where, in the contingency in Europe, we needed to get product in quicker to serve those who were in harm's way. And so, now that we are moving into more of a peacetime environment, we were able to look at that very rigorously and able to reduce it.

But we are at the point where it is efficient, in my view. And as Admiral Bianchi said, if we take more money out of the SDT support at this juncture, we will be risking readiness and resiliency and possibly having to increase prices and change the product mix that we provide locally in terms of a taste of home and having the right mix of product from the United States.

Mr. WILSON. Thank you.

And Mr. Dillon.

Mr. DILLON. Yes, sir, I can only agree with what my partners here have to say, first of all.

Secondly, we enjoy today because we are the small one on the block, and we enjoy the cooperative efforts that we have today. We generally ride often with shipments for either AAFES or for NEX, especially. We have a lot less of an overseas requirement than they do. And so the benefit would be significant to us, as well, if it were to be cut because we are enjoying that savings right now in partnering with the other services.

Mr. WILSON. You all have brought up some terrific points. Thank you so much. The postal, that is really on point.

Mrs. Davis.

Mrs. DAVIS. Thank you, Mr. Chairman.

And I know my colleague earlier mentioned bringing variety, you know, why we have the kiosk and what those arrangements are. And, certainly, we want to have that variety.

But I wanted to mention and ask Mr. Shull, the—my understanding, at Fort Bliss Lifestyle Center, they brought in a dollar store. And so, in many ways, this store is competing with other opportunities that our military families have to spend money that brings money back to Morale, Welfare, and Recreation.

You know, how do we deal with this issue where we have a potential competitor against the military operations? How do you make those decisions?

Mr. SHULL. That is a very good question, ma'am, and we are looking at that now. We only have one Dollar Tree location. It is in Fort Bliss. It is in the Lifestyle Center. We have a different busi-



ness model there at the Lifestyle Center, where we do bring out—through a broker, we fill the space. And, in this instance, we worked with a broker to fill some vacant space with a Dollar Tree.

We are going to review that. We didn't know that—part of the problem is, when you do that, when you work through a broker, you don't necessarily have full control over the merchandise assortment. So we are reviewing that merchandise assortment to make sure that it does not conflict with our sister agencies or with us, in terms of offering. We believe there is something like 31 items that may compete with the commissary. We are going to review that, and I would like to ask to be able to get back to you on that, ma'am, in terms of the detail.

[The information referred to can be found in the Appendix on page 159.]

Mr. SHULL. But remember, it is one location. We have 3,700 facilities, and this is one location. We will not proceed to broaden the footprint of that kind of concept because of the fact that we just recently learned there may be some conflict with the offerings of DeCA and our sister exchanges and even for our own offering.

But, again, this is a different business model. It is in one location. We are going to look at that Dollar Tree and evaluate whether we should have it in the mix of our—both in terms of assortment as well as facilities.

Mrs. DAVIS. Uh-huh.

Do you ever hear also from DeCA or on other occasions where perhaps it is not a Dollar Store but it is an entity that is competing in some way with something, I guess fairly basic, that is being offered?

When I think of a kiosk, I think of something different, special that comes in, that you have decided at the holiday time or, you know, at some point would be a benefit to families to have access to. But I can imagine that there also must be others where there is really a competition there.

Mr. SHULL. There could be, ma'am. I am not aware of any others. We are very diligent, working through the Cooperative Efforts Board, as a team here to make sure we don't compete with one another or bring in businesses that might compete with our own business.

Mrs. DAVIS. Right. Right.

Mr. SHULL. We do need to look at the Dollar Tree issue. This is the first time this has come up in my 18 months, and we will take a very serious look at this and make sure it doesn't in any way compete with, particularly, a commissary.

Mrs. DAVIS. Okay. Thank you very much. Appreciate it.

Ms. WILLIAMS. And, ma'am, if I might add, there is a great deal of transparency with the concessions and the PPVs [public-private ventures], and all of the directors are quite open in the dialogue. The Dollar Tree, in particular, is in internal dialogue right now, and we hope to have resolution shortly.

Mrs. DAVIS. Uh-huh. Great. Thank you.

And thank you all for trying to address the efficiencies. Obviously, when we come back here next year, it is going to be good to know, you know, was there something in the past year that oc-

curred that really made a difference, that was a new innovation in the efficiency area, because we obviously need to find those.

Mr. JEU.

Mr. JEU. If I could add just one more thing, I think that we do work closely together, between commissaries and exchanges. And I believe when we complement each other, I think it brings strength to the resale system. I think when we compete, which we do not, then it does not. I think it brings system weaker.

So, fortunately, all of us work together collectively to have a complementary system. And I think we are doing that.

Mrs. DAVIS. Thank you.

Mr. WILSON. And, again, thank you very much.

And thank you, Mrs. Davis.

And I do appreciate the final comment, a complementary system which is beneficial to military families.

There being no further business, we are adjourned.

[Whereupon, at 3:48 p.m., the subcommittee was adjourned.]

---

---

# **A P P E N D I X**

NOVEMBER 20, 2013

---

---



---

---

**PREPARED STATEMENTS SUBMITTED FOR THE RECORD**

NOVEMBER 20, 2013

---

---



**Opening Statement of Chairman Joe Wilson  
Subcommittee on Military Personnel  
Hearing on  
Military Resale Programs Overview  
November 20, 2013**

Welcome to a meeting of the House Armed Services Subcommittee on Military Personnel. Ladies and Gentlemen, the hearing will come to order. Today, the subcommittee will examine the military resale programs within the Department of Defense, specifically how the military resale community will continue to provide appreciated benefits to service members, their families, and retirees in a fiscally constrained environment.

The military exchanges, the commissary and the Morale, Welfare and Recreation programs are acknowledged as highly valuable and appreciated benefits that support active duty retention, the well-being of the military community, and the readiness of the force. The commissaries, exchanges and Morale, Welfare and Recreation programs have long provided extraordinary savings to their patrons as well as job opportunities for military spouses and families, which I view as critical during the past years of economic challenges. The continued fiscal pressures on the Defense budget have caused the Department and services to look at initiatives to reduce appropriated funding for these programs.

As Congress debates the devastating reductions to Defense accounts that are associated with the sequestration, it is critical we hear from the Department and the military resale community to reinforce the importance of these programs to the All-Volunteer Force, but also how the resale community is working together to ensure this valuable benefit is maintained even in a fiscally constrained environment. I remain a strong supporter of military commissaries, exchanges, and the Morale, Welfare and Recreation programs and will continue to work to ensure that these programs continue to provide the effective benefits our men and women in uniform deserve. I agree with President Obama who spoke at Camp Pendleton on August 7, 2013, where he said "Hardworking folks are getting furloughed, families getting by on less, fewer ships available for your training exercises, the commissaries your families rely on closed a day

a week. We can do better than that. That's not how a great nation should be treating its military and military families.”

I would like to welcome our distinguished witnesses:

**Ms. Rosemary Freitas Williams**

Deputy Assistant Secretary of Defense, Military Community and Family Policy, Office of Under Secretary of Defense for Personnel and Readiness

***Mr. Robert J. Bianchi, Rear Admiral, Retired***

Chief Executive Officer, Navy Exchange Service Command

**Thomas C. Shull**

Director and CEO, Army & Air Force Exchange Service

***Mr. Joseph H. Jeu***

Director and Chief Executive Officer, Defense Commissary Agency

***Mr. William C. Dillon***

Director, Semper Fit and Exchange Services  
Manpower and Reserve Affairs Department  
Headquarters U.S. Marine Corps

***Mr. Patrick B. Nixon***

President, American Logistics Association

***Mr. Thomas T. Gordy***

President, Armed Forces Marketing Council



**HONORABLE SUSAN DAVIS  
HOUSE ARMED SERVICES COMMITTEE  
SUBCOMMITTEE ON MILITARY PERSONNEL  
MILITARY RESALE PROGRAMS OVERVIEW—HOW THE  
COMMUNITY WILL CONTINUE TO PROVIDE BENEFITS TO  
SERVICE MEMBERS, FAMILIES AND RETIREES IN A  
FISCALLY CONSTRAINED ENVIRONMENT**

**November 20, 2013**

Thank you, Mr. Chairman. Let me also join you in welcoming our witnesses. Ms. Williams, welcome, I believe this is your first testimony before the subcommittee; we look forward to your statement. The rest of our witnesses have been here before, so let me welcome you all back.

This is our annual hearing on military resale and morale, welfare and recreation (MWR) programs. It is important that we hold this hearing each year, and especially in these difficult economic times, because the resale programs and associated MWR programs are important and valuable to the military community.

Our nation has been in war for nearly 12 years, and while the pace of deployment and the number of troops being sent in harm's way is decreasing, the demand for support services such as access to basic necessities such as food and clothing, as well as access to marriage counseling, child care, transition programs, alcohol treatment programs have only increased. The transition to a smaller force and the continued support that our military service members and their families will need is important if we are to ensure a quality of life they have earned is provided.

The reality of the current budget is upon us, efforts to look at eliminating commissary and exchange benefits as a way to reduced costs are again being looked again. Yet, the commissary benefit remains the most

valued benefit by service members, retirees and their families. And, except primarily for second destination funds, the exchanges actually provide a monetary benefit back to its customers through dividends that support MWR programs. The sad fact remains, however, that budget reviews tend to only look at the bottom line and fail to assess the secondary or unintended consequences of their recommendations.

That said, the commissaries and exchanges and MWR programs, have a fiduciary duty to ensure that they are providing the most cost-efficient benefit—because commissaries are supported by tax payer dollars, and exchanges are supported by service member dollars. Both systems need to ensure that they are doing all they can to best utilize the resources that they are provided.

I look forward to an open and frank discussion on these issues. The dedication and commitment military resale employees have provided to military families, under the on-going challenging conditions, have been truly outstanding, and we are thankful for their contributions. I look forward to hearing more from our witnesses.

Thank you, Mr. Chairman. I look forward to hearing from our witnesses.

**Prepared Statement  
of  
Ms. Rosemary Freitas Williams  
Deputy Assistant Secretary of Defense  
(Military Community and Family Policy)**

**before the  
U.S. House of Representatives  
Committee on Armed Services  
Subcommittee on Military Personnel**

**November 20, 2013**

Thank you, Chairman Wilson and Ranking Member Davis, for your strong support of quality of life programs for military members and their families. Your leadership and emphasis have kept the focus on the programs that help keep our military strong and resilient. Today more than perhaps ever before, the members of our military community need to count on the resolve and commitment you have so consistently displayed over the years for the programs they hold most dear.

I would like to highlight some major recent achievements within the Military Community and Family Policy portfolio. Then I will shift the focus to the current outlook for us and our resale partners in a reduced budget environment. Finally, I will give you a quick preview of some preliminary results from our Task Force on Common Services, as well as some other transformational initiatives that hold great potential for our future.

#### **MILITARY COMMUNITY AND FAMILY POLICY**

Our Service members never hesitate to answer the nation's call, whether in combat or here at home. The challenges of military service place members and their families under significant strain. Morale, welfare, and recreation (MWR) programs are critical to their wellness and resiliency. Participation in recreation, fitness, sports, cultural arts and other leisure activities leads to improved personal health and well-being, and helps build strong military families and healthy communities. Active living is known to reduce stress, loneliness, obesity, and depression and builds positive self-esteem and esprit de corps critical to a healthy military environment.

### **Deployment Support**

Over the past year, and as the result of your support, we continued robust programming for deployed service members and their families. Military spouses indicated that being able to communicate with their service member is one of the most important factors impacting their ability to cope with deployments. The 426 free MWR Internet Cafes and 150 portable morale satellite units in the Middle East allowed deployed members and their families to share 4.6 million minutes of talk time each month between January and June of this year. Library online databases supporting continuing education, career development, spouse employment and children's interests had 86 million hits in FY 2012. More than 600,000 tutoring sessions have been conducted for children of deployed service members through Tutor.com, an online 24/7 live homework support network. Through partnership with the Armed Services YMCA, more than 60,000 families and 77,000 children were able to enjoy free YMCA memberships, private fitness memberships and respite child care at more than 1,481 YMCAs and 1,155 private fitness centers across the U.S. The summer reading program at 230 libraries around the world boasted 25 million minutes (that's almost 50 years!) of reading time for our youngest readers.

### **Military Service MWR Programs**

In addition to these impressive accomplishments, the Army, Marine Corps, Navy and Air Force have been equally engaged at ensuring quality of life for their respective service members and families. The Army Warrior Adventure Quest program mitigated risky behaviors for nearly 150,000 soldiers at 46 garrisons as part of the Army reintegration strategy. The Marine Corps High Intensity Tactical Training program complements individualized fitness options, enhances

operational fitness and optimizes combat readiness and resiliency for the Corps. The Navy expanded their train-the-trainer model for MWR fitness professionals in FY 2013, allowing certification of over 2,300 command fitness leaders at Navy installations, doubling training capacity and significantly reducing travel costs. In March of this year, Air Force initiated a test of unmanned, 24/7 fitness access, allowing after-hours access to installation fitness centers, which was extremely well received by the more than 50,000 users without any safety or vandalism incidents. Each of the services operates high-adrenaline adventure programs to address difficulties faced by reintegrating service members as they transition from an energy-charged deployed environment. Adaptive and inclusive recreation programming allows wounded, ill and injured Service members to engage in recreation and sports as an important component of rehabilitation and reintegration. Families with special needs family members also benefit from these adaptive programs.

#### **Child, Youth, and Family Programs**

We continue to make great strides in our child development and youth programs. Over 97 percent of our eligible DoD Child Development Centers are nationally accredited, compared to 8-10 percent in the general population. We standardized overarching criteria for child development program inspections that will be implemented during the 2014 inspection cycle. In order to support quality child care for National Guard, Reserves and geographically-dispersed families, we collaborated with the University of Nebraska to improve the quality of off-installation child care. This initiative allowed approximately 2,000 individual staff members to complete more than 11,500 lessons on developmentally-appropriate practices in early care and education. This training represents over 19,000 hours of professional development. Long-term savings and reductions will be realized through the consolidation of training programs and the

centralized purchasing of materials. We also partnered with the Boys & Girls Clubs of America to launch the first ever Military Youth of the Year competition.

Our Family Advocacy staff developed a five-year Strategic Plan for Prevention of Child Abuse and Neglect and Domestic Abuse to target prevention efforts to evidence-based programs relevant to military families. We included our federal partners (the Department of Health and Human Services' Administration for Children and Families, and the Centers for Disease Control Division of Violence Prevention) to ensure alignment with current research and Federal practices. In collaboration with Penn State University, we evaluated the New Parent Support Program and developed core measures and metrics. The study suggested that an early intervention home visiting program that focuses on at-risk expecting and new parents could strengthen families and prevent child abuse and neglect. We also established a Multi-Functional Domestic Violence Data Working Group with the military Departments to address Fiscal Year 2011 requirements for a comprehensive management plan to track command disciplinary actions. The working group identified technical, procedural, and legal limitations in previous attempts to match law enforcement, clinical, and command (administrative and punitive) data concerning domestic violence incidents. The working group report to Congress proposed legislative action to implement key recommendations.

We completed the pilot phase of the Military and Family Readiness Program accreditation, a national objective, independent and reliable validation of military and family support program performance. Accreditation involves a detailed review of the military and family support program administrative management and service delivery functions against national standards of promising practice. Military and family support programs at all six pilot installations have been accredited by the Council on Accreditation. We are expanding to 20

additional installations this year, and are also piloting a National Guard family program and two Army Reserve family program sites.

More than 50,000 military spouses have now found jobs with more than 200 Military Spouse Employment Program partners through our spouse employment program. We also launched the Spouse Ambassador Network with 11 military support organizations that will leverage their established community networks to broaden knowledge about military spouse employment resources. The network will connect our partners and local businesses, community organizations, and local Chambers of Commerce to educate, empower, and mentor military spouses. Finally, our new Spouse Education and Career Opportunities website for military spouses, MySECO, provides a comprehensive online forum with access to essential information and resources, leading career counseling tools, and assessments at no cost; the ability to develop a personal profile allowing spouses to capture and track their personal information and progress as they advance their education or career; and a military spouse scholarship database.

These are just a few examples of the innovative and effective quality of life programs that we and our Service partners provide to promote readiness, resilience, and unit cohesion.

#### **CHANGING TIMES**

The Subcommittee's invitation focused this hearing on the impact of the reduced budget environment on military resale, which consists of the commissaries and the military exchanges. The Defense Commissary Agency (DeCA) is now aligned under the Assistant Secretary of Defense for Readiness and Force Management. My office continues to provide policy guidance for the commissaries, as well as for the military exchanges.



My colleagues from the Defense Commissary Agency and the three exchange organizations will expound upon the impacts on their organizations. I do want to offer a couple of observations from my perspective, as well as some similar insights into our MWR operations.

Each of our organizations does a remarkable job of meeting the needs of the military community, a mission that becomes even more challenging in a highly-competitive marketplace, a recovering economy, and an uncertain budget. Our MWR and Resale professionals are highly dedicated to the mission, and focused on the consistent delivery of world-class service. However, we're seeing indications that things are not the way they used to be—not necessarily better or worse, but at least different. Taken by themselves, any one of these may not be all that significant. However, we do need to pay attention to these indicators and monitor for what they might portend for the future, so that we do not get caught unprepared. Here are some of the factors that have caught our attention.

#### **Customer Satisfaction**

The Department has been using the independent American Customer Satisfaction Index (ACSI) survey to measure commissary and exchange customer satisfaction since 2002. The annual ACSI is a system-wide tool for strategic benchmarking and competitive comparisons with the related industry sectors. The ACSI uses exactly the same survey instruments for commissaries and the exchanges as it uses for the private sector companies in their respective industries. We track the results using a balanced scorecard approach. The Department's goal is to meet or exceed the industry average of customer satisfaction.

DeCA improved its 2012 overall ACSI customer satisfaction score by a point from a year ago and is now a significant five points above the supermarket industry average. Only six

percent of DeCA's customers indicated they complained about their experience in the past year, a significant six point decrease from 2011 and below the industry average of eight percent. DeCA's perceived overall quality significantly exceeded customers' expectations. DeCA's customer loyalty score also improved in 2012 and now meets the industry average.

Since 2002, the Marine Corps Exchange has achieved steady improvement in nearly every ACSI measure. Overall customer satisfaction improved by one point from a year ago and is now just above the department and discount store industry average. Customer expectations are equal to overall perceived quality and are significantly above the industry average. Perceived quality, product quality, and service quality scores increased and are well ahead of industry. While customer complaints at all the exchanges are below the industry average, the Marine Corps Exchange is significantly better than the others.

The other two exchange systems, the Army and Air Force Exchange Service (AAFES) and the Navy Exchange Service Command (NEXCOM), achieved standout scores in a number of the areas rated but slipped a bit this year in overall satisfaction, which is now just below the department and discount store industry average. We added additional customer filtering questions this year to explore possible ways to improve customer loyalty scores. Commissary patrons cited distance from the store, and exchange patrons cited selection, distance, and price, as the major factors. Hours of operation, base access, and store atmosphere were not significant factors in their responses.

Building on its experience with the ACSI in the resale community, the Department began to use similar methodology to assess customer satisfaction with MWR programs in 2009. The overall Department-wide customer satisfaction index score did not change from 2009 to 2011,

but there were changes in the individual Service customer satisfaction index scores. Both the Army and Marine Corps MWR overall satisfaction increased an impressive two points, the Navy decreased one point but still had the highest overall satisfaction score, and the Air Force decreased by a statistically significant three points. The survey also rated customer satisfaction within 8 individual MWR program areas, and indicated that improvements in fitness center facilities and outdoor recreation programs would have the highest impact on readiness and overall satisfaction with MWR. Those two areas will remain the Department's top priorities for improvement, followed closely by the Single Service Member Program.

The 2009 survey results suggested that MWR has a critical impact on readiness: if MWR satisfaction increases, readiness increases. The readiness score increased by three points in 2011. In addition to readiness, the survey measured the impact of MWR satisfaction on retention and unit cohesion. The survey also showed that unit participation in MWR programs has a positive effect on program satisfaction, MWR satisfaction, readiness, unit cohesion, and retention. In very practical terms, the Customer Satisfaction Index can be an important tool to rebalance resources within MWR programs for better alignment with our most critical challenges and priorities. We are currently preparing the next update to the MWR Customer Satisfaction Survey.

#### **Appropriated Fund Support to MWR Category A and B Programs**

The continued vitality of the MWR program depends on sound management, meeting command and customer needs, a predictable stream of nonappropriated fund (NAF) revenue, and solid appropriated fund (APF) support of Category A and B activities.

The good news is that APF provided a total of \$2.03 billion in direct baseline support for the MWR program in FY 2012, with \$1.01 billion for MWR activities and \$1.02 billion for child and youth programs. However, after 4 years of steady growth, that was \$119 million less than FY 2011 funding. Please keep in mind that sequestration did not go into effect until the middle of FY 2013; the Military Services anticipate further cuts to APF based on current trending.

By Congressionally-approved Department policy, Category A activities (fitness, libraries, recreation centers, single service member programs, and intramural sports) should be entirely funded with appropriations. The Department sets a minimum standard requiring at least 85 percent of total expenses being supported with APF. Department-wide, we dropped two percentage points but continued to meet this standard in FY 2012; however, the Army slipped just below this minimum requirement.

Similarly, in Category B activities (child and youth development programs, outdoor recreation, crafts and automotive skills, and small bowling centers), APF should provide a minimum of 65 percent of the total expense. The Department as a whole dropped eight percentage points and slipped just below the requirement in FY 2012. The Marine Corps percentage held steady, but the other Services experienced considerable reductions; both Navy and Air Force fell well below the required 65 percent.

The Services attributed most of the decrease in funding to competing priorities within installation services and management, and took actions to mitigate the impact including adjusting hours of operation, adjusting personnel requirements, and reducing programs. They prioritized and funded the most critical services, and looked for opportunities for partnering and other methods of delivering programs and services where APF support was no longer available or

sufficient. To sustain delivery of programs to meet customer demand, the Military Services also boosted the use of NAFs; this increased the burden on Service members and families, and could affect the future recapitalization of revenue-generating MWR activities. This is not a sustainable APF/NAF funding model and, if future funding decreases, MWR programs for our Service members and their families will continue to erode.

#### **NAF Financial Performance**

The exchange services have not been immune to the recent economic challenges facing the entire retail industry or from the global competition and reduced margins driven by large-scale retailers. Despite those pressures, combined exchange revenues have increased each year and are up 8 percent since 2009. However, earnings and MWR dividend performance have been mixed. Earnings have been steadily down since 2009 and are now 38 percent below that level. MWR dividends rebounded from the drop in 2011 but are still 10 percent below the 2009 level. For their current fiscal year, exchange forecasts now project revenue down nearly 5 percent, earnings up more than 40 percent, and dividends up almost 2 percent. Although the direct impact of sequestration on the exchange services has been minor so far, they have started to see some negative effects of reduced APF base operating support for the sustainment of their existing facilities. There are also persistent concerns about attempts to eliminate APF support for overseas utilities and second-destination transportation costs to ship merchandise for those stationed overseas. We will continue to monitor these indicators and work closely with the exchange services as we navigate the uncertainty of the current budget environment and the pressures from the retail industry.

Similarly, MWR revenue tended to be slightly up in their FY 2012, although Army and Air Force experienced significant reductions in exchange dividends. The Marine Corps was the only service to show positive net earnings—and an improvement from prior year—fueled largely by an increase in APF support. The other Services went from positive net earnings in FY 2011 to losses in FY 2012, a negative swing of over \$140 million. Factors included the impact of force reductions and reduced APF support for personnel, contracts, and facility upkeep. As previously noted, the Services are taking action to close marginal activities and reallocate their resources where they will have the greatest impact. For example, Air Force reported closing 19 activities in FY 2012 (11 leisure travel offices, 3 aero clubs, 2 bowling centers, a club, a community center, and an auto hobby shop); the Navy also closed some under-performing Category C activities and is reviewing others with long-term financial concerns.

When one activity suffers a reduction in APF support, the "domino effect" often spreads the disruption into other activities. One prime example is the APF funding that supports some caregiver positions in the child development centers. When that funding stream is disrupted by an APF reduction or hiring freeze, the base is left with only two alternatives. One option is to shut down child care rooms and reduce capacity; for every caregiver position that is unfilled, up to twelve children will no longer receive child care. However, child care is such a high priority that bases are often reluctant to take that step. The only other option is to keep the child care rooms open by diverting NAF resources from other programs. Those other programs, in turn, have to compensate for the reduction in their NAF resources by cutting back hours or services, increasing prices, deferring needed improvements, or in some cases closing completely. Thus the impact of APF shortfalls, whether due to furlough, sequestration, or other budget issues,

spreads throughout the entire MWR enterprise and affects a much wider variety of programs and services.

In a related matter, the Army reorganized the regional oversight of its installations and reduced the associated staffing levels. Similarly, the Air Force all but eliminated its major command MWR oversight staffs, transferring some of the manpower resources to the headquarters. Measures like these should achieve some short-term economies, but especially in these challenging and turbulent times, it will become even more critical for the remaining staff to provide adequate and timely support and oversight to the installations.

#### **Construction and Facilities**

The FY 2014 program that we just submitted is the smallest in recent memory, with a total of 23 projects (down from 38 last year) at a cost of \$289 million (down from \$515 million last year). Commissary and MWR major construction spending is up slightly, even though there are fewer projects; for the second year in a row, the Army submitted no major projects for approval. Exchange projects declined slightly; the Army and Air Force Exchange Service typically submits about 13 major projects but this year is concentrating on e-commerce and sustaining its existing facilities. Lodging projects are down more than 80 percent.

We share the concerns expressed by the Subcommittee in recent years over the declining rate of recapitalizing NAF facilities. Our community currently estimates a \$2.8 billion shortfall for commissary, exchange, and MWR facilities over the next 10 years. However, those shortfall calculations are typically based on status-quo models: the replacement cost for all facilities in the current inventory, the expected useful life of those facilities, and the current level of earnings.

We are now taking a more strategic look at our requirements by asking more fundamental questions:

- ***Will we really need to replace everything we currently have?*** Many of our programs occupy legacy facilities that were built many years ago to accommodate much larger military populations. The patron base back then tended to live on or close to the installation, which truly served as the hub for the military community. The patrons of that day also had different interests than the people we serve today. In addition, on-base facilities and programs may no longer be the best way to serve today's military community, at least two-thirds of whom now live off base. The "build-it-and-they-will-come" philosophy may have worked adequately years ago, but is not consistent with the current dispersion of our patrons. We may be better off in the future sizing our facilities to accommodate those who live on base—for whom the base *is* the community—and find more economical ways to link our off-base members and families with local providers of the services they need.
- ***If we do elect to build a new facility, do we have the right standards?*** We tend to build our facilities to last 30 or more years; many commercial facilities are typically built to recover their investment in much shorter periods, and then be replaced with something more contemporary at that time. We certainly appreciate the need for anti-terrorism and force protection measures, but occasionally hear that our designs are held to the same protective standards regardless of whether the facility will be located in the central part of the protected base enclave or adjacent to the perimeter fence.

We do not yet have the answers, but believe questions like these will provide a more productive approach to meeting the needs of the community in the future. Meanwhile, we will



continue the current emphasis on extending the useful life of current facilities and, where new facilities are required, pursuing multi-purpose multi-use projects as well as public-private ventures.

### **STRATEGIC TRANSFORMATION INITIATIVES**

Over the past several years, it has become increasingly apparent that we would require more than a minor adjustment to meet the future needs of our community. As a result, we embarked on a number of strategic initiatives that don't just tinker around the edges but fundamentally transform the landscape.

#### **Task Force on Common Services**

On February 6, 2013, we held the first meeting of the Task Force on Common Services for Service Member and Family Support Programs. Based on the timing, many people wrongly assumed that we had formed this Task Force to cope with the expected effects of sequestration. The idea had actually been working for nearly two years and can be traced back to three key stimuli.

First, a cross-functional Task Force on Military Health System Governance noted that each military department separately managed its own medical treatment facilities, even in multi-service medical markets like the National Capital Region. The Task Force concluded there were opportunities “to accelerate the adoption and implementation of more efficient, common clinical and business processes through reengineered and more streamlined shared services,” and “to more rapidly implement and effectively manage efficiencies than the current organizations are likely to do.” The resulting shared services model anticipated an initial reduction in overhead,

with significant additional cost savings as duplicate services are eliminated. We quickly noted the great potential for similar benefits within the Military Community and Family Policy portfolio.

Then, during one of our normal annual reviews with the Services, it became apparent that all of the Services were doing essentially the same things and faced many of the same challenges, independently coming up with similar solutions. One of the Services voiced a need for more than \$80 million to buy a new NAF accounting system; just days earlier, another Service had commented about the successful implementation of its own new accounting system. We noted that collaboration between those two Services could offer some potential at least to reduce developmental cost, time, and effort, or even for a shared service function to support both of them.

Finally, in a high-level discussion of the Department's direction to maintain funding for family programs, one senior leader suggested further review to determine whether the Services had taken significant reductions with adverse impacts in this area. Instead of another narrowly-focused funding review of specific programs, we got approval for a broader and more comprehensive review of common services and overhead provided to all MWR and family programs, and the Task Force on Common Services was born.

The Task Force consisted of 16 general officer and Senior Executive Service civilians whose mission was to review the total cost and methods of providing common services for military member and family support programs Department of Defense-wide. Membership included key Department oversight offices, the Joint Staff, Reserve Affairs and the National Guard; the military departments were represented both by their Secretariats and by their MWR

and family programs areas. The Task Force received legal support from the Office of the General Counsel.

The Task Force charter contained five objectives:

- Maintain the Department of Defense's strategy and commitment to the well-being of military members and their families, delivering the same or better levels of programs and services.
- Improve effectiveness, efficiency, and economy in the delivery of programs within the purview of the Office of the Deputy Assistant Secretary of Defense for Military Community and Family Policy, along with their related overhead and headquarters functions.
- Drive down both the APF and the NAF unit cost of providing programs and services to military members and their families.
- Through shared services or similar models for common support, enable greater economies of scale than the individual military departments can achieve independently.
- Retain a portion of the initial savings to cover transition costs and offset program shortfalls.

To achieve these objectives, the Task Force concentrated on overhead functions that support field programs, common services across a spectrum of programs, and higher headquarters functions (above the installation level). It focused on processes that should be

transparent and with no noticeable impact to the end user, rather than program content and delivery. It looked for opportunities to collaborate at the Service level, rather than pursuing four independent paths to a similar goal. It recognized the value of improvements in operational management, even if those benefits could not easily be quantified in financial terms.

After receiving baseline briefings from the Services on their operations above installation level, the Task Force initially identified some 31 candidates for further study and then narrowed the list down to the top 12 study areas. An additional area was added to accommodate a timely White House request, and two more high-priority areas were inserted into the schedule as resources became available. In the end, the Task Force studied the overhead functions associated with 15 major areas: child care and youth programs; NAF procurement; management training; NAF accounting; information technology services; exceptional family member program; lodging; NAF employee benefits; Yellow Ribbon reintegration program; information and referral services; NAF banking and investment; school liaison officers; fitness, aquatic, and wellness programs; risk management and NAF insurance programs; and personal financial management training.

The next 4 months were a period of rather intense study. The Task Force launched a different topic each week with Service briefings that covered the management of that week's study area, the services typically provided above installation level, appropriate measures of size and scope, staff and resources, any unique elements, and challenges and opportunities. After those baseline briefings, leading functional experts from each Service gathered for an intense week-long study effort, modeled after Lean Six Sigma rapid improvement events and led by master black belt facilitators from the Office of the Deputy Chief Management Officer. Just four

weeks after the initial baseline briefing for that study area, the team members outbriefed their results to the Task Force.

The Task Force report is still being written, but a number of common themes emerged from the study team briefings. Please note that these conclusions are preliminary and only reflect the positions of the functional experts on the study groups. However, those conclusions did come up with some frequency and are worthy of consideration.

First, there was nearly universal agreement that there is significant room for improvement in cooperation and collaboration. The Services frequently used different providers for essentially the same services. When they used the same provider, it was more by chance than design and typically involved separate solicitations, contracts and possibly pricing. It looked like most functions involved four separate Service offices doing essentially the same thing for people with similar needs spread over the same geographic area. Almost universally, functional areas that did not already have an established collaboration forum recognized the need for one; several of them began to meet regularly almost immediately.

Second, many of the recommendations could have already been implemented by the functional community, without the need for any higher-level involvement or approval. For example, the study group on NAF procurement noted how much simpler life would be—for themselves and for their vendors—if they all used the same standard contract clauses. The current contract clauses were established within each Service's functional community and presumably could be changed by them without any involvement by the Task Force or senior Department leadership. Many of the study groups identified similar recommendations that could

be implemented within their existing authority and started flagging them as “JDI”—for “Just Do It”!

Third, the study groups recognized that success did not necessarily require 100 percent participation. For example, it would be difficult for the Marine Corps MWR function to collaborate with any of the other Services on NAF accounting, since their finances are already integrated with the Marine Corps Exchange. If we look at this as an “all or nothing” proposition, we might lose the opportunity for significant improvements in efficiency and cost for the other three Services.

We are currently compiling the final report of the Task Force’s work, which we expect to complete by the end of the year. We have also embarked on a parallel effort by an independent organization to determine whether there is a supportable data-driven business case for some of the major changes that were proposed by individual study groups, along with any necessary change management recommendations. It is too early to calculate the payoff from this effort. However, for comparison, the Task Force on Military Health System Governance that I mentioned earlier estimated in April that its shared services model would conservatively save 23 percent of the medical community’s current overhead cost. In our case, the Services reported spending a total of \$4.6 billion to provide MWR and family programs, including \$812 million in overhead. Any savings from that overhead, whether APF or NAF, would free up resources that could be used to preserve and enhance needed programs at no additional cost.

#### **Military Compensation and Retirement Modernization Commission**

Another area of transformation began in February 2013, when the Department also launched a comprehensive review in support of the Military Compensation and Retirement

Modernization Commission that was directed in the FY 2013 National Defense Authorization Act. The statutory objectives of the Commission include sustaining the All-Volunteer Force, achieving fiscal sustainability, and enabling the quality of life of Service members and their families. This initially seemed to overlap or even duplicate the functions of the Task Force, but we saw a clear distinction. The Commission's role is to determine *what* should be provided to entice high-quality people to join the military, to remain for a period of productive service, and to ease their transition back to civilian life. The Task Force, on the other hand, is not so much concerned with *what* is in the package, but rather *how* those components would be supported above the installation level.

The Department's review was broken into three major working groups. My organization chaired the working group on quality of life (QoL) programs supporting military members, retirees, and their families. Since we also chaired the Task Force, we were in the perfect position to deconflict these two efforts while ensuring the crossfeed of useful information.

Many complex challenges are involved in selecting QoL programs to be offered, not the least of which is the sheer number and diversity of potential offerings. In addition, the expansive target demographic profile includes single Service members in a wide age group, members with dependents and young families, and a robust retiree population. Compounding the challenge is the geographic dispersion of active duty Service members, 68 percent of whom now live off the installation, as well as reservists and National Guard personnel, many of whom live 20 miles or more from the nearest installation.

The Working Group found that many of the Department's QoL program offerings and associated models for service delivery date back to the Cold War era (from the 1950s through the

1980s). As such, they may not be serving today's Service members and families as effectively as they did in the past. In particular, working group members questioned whether the 1987 "Category A-B-C" funding model adequately provides for contemporary needs and drives the programs to support them. This area will require considerable additional study and we recognize the role you play in considering any potential changes.

### **Healthy Base Initiative**

The Healthy Base Initiative grew from the National Prevention Strategy that the President released in 2010 to promote good health for all Americans. In 1997, the World Health Organization formally recognized obesity as a global epidemic. This is a major concern for the Department; a 2010 estimate indicates that 27 percent of potential military candidates cannot qualify for military service because of their weight, and failure to maintain acceptable weight and fitness standards remains a leading cause for dismissing members from the Service. The Department spends \$1.6 billion a year on illnesses associated with obesity (like diabetes, heart diseases, and osteoarthritis). A 2009 report by the Institute of Medicine puts a similar price tag—an additional \$1.6 billion a year—on the Department's tobacco-related medical costs, hospitalization, and lost days of work.

We are partnering with the Department's Health Affairs community to sponsor the transformative Healthy Base Initiative, a demonstration project to create an environment which encourages sustainable healthy lifestyles; its initial focus is on reducing obesity and tobacco use. Existing health and wellness initiatives as well as promising new practices are being measured for their efficacy at 14 locations across the Department and the Coast Guard. The Healthy Base Initiative team has already engaged numerous internal and external stakeholders to build a



strategic roadmap. The roadmap provides a systems-based approach to promote healthy living, including food, active living, schools, families, health and wellness, physical environment, and tobacco control for the entire military community. Initiatives and measures were developed for each component of the system.

Multi-disciplinary teams have completed baseline assessments at each pilot location focusing on the environment and population health, with several major findings. Food is a major challenge, as few healthy options exist on base. Military dining facilities continue to face challenges with customer satisfaction, cost, and participation; many have significantly cut back their hours of operation or closed completely. The only other choice at most installations is fast food. Junior military personnel who live on base and have no transportation are often out of luck, since the dormitories are typically not designed for cooking. On the other hand, the assessment teams found that active living, fitness, and child and youth programs at the pilot installations are very well operated and promote health and wellness. On-base schools provide health-focused programs for the children, though opportunities exist to improve food and wellness policy implementation. Health and wellness programs are well done, especially when embedded in the units. The physical environments of the pilot locations vary widely in terms of promoting active living.

The Healthy Base Initiative team is currently working on implementation and measurement plans, with the goal of beginning a rolling implementation this month. In addition to population health and operational measures, financial metrics will be included. Opportunities clearly exist to increase the efficiency of programs provided, as well as realigning funding where it has the most positive impact.

As a popular spin-off benefit from this initiative, several bases have established farmers markets through DeCA, MWR or private entities, increasing the access to fresh locally-grown fruits and vegetables. Initial results have been positive, and we expect more farmers markets across the Department as the different concepts mature.

#### **Air Force Food Transformation Initiative**

As mentioned above, our Healthy Base Initiative assessments indicated that on-base food service operations, both military essential feeding and NAF concepts, need considerable attention across the Department to provide healthy options that are convenient to the needs of our customers, at an appropriate cost. The Air Force had already come to a similar conclusion in 2008, when it developed the business case and secured the funding for its Food Transformation Initiative. The focus was to enhance food service quality, variety, and availability across the installation dining facilities (to include the MWR NAF activities), and sustain the training platform for military cooks. The concept was to use a NAF instrumentality memorandum of agreement to operate APF military dining facilities and MWR NAF food service operations (like snack bars and clubs) under a single contract; the Air Force relied upon section 2492 of title 10, United States Code to provide the necessary authority. The initiative launched in 2010 with Congressional support and oversight from the Government Accountability Office. The initial results have been overwhelmingly positive with significant increases in customer usage, customer acceptance, purchase of healthy options, and operational savings for both APF and NAF activities. This past year, the Air Force moved into the next phase of this initiative; however, a bid protest concerning the procurement process put the initiative on hold temporarily. The Government Accountability Office decision to uphold the bid protest centered around their contention that the Air Force is not authorized under section 2492 of title 10, United States Code

(or any other statute) to purchase services from a NAF instrumentality via a memorandum of agreement. Instead, it determined that any purchase of services from a NAF instrumentality could only be made competitively via a procurement contract in accordance with the rules and procedures of the Federal Acquisition Regulation. This position appears to ignore the NAF status as an instrumentality of the Federal government, and also seems to be at odds with our understanding of the Congressional intent behind that provision. To preclude any further disruption to processes that depend on this authority, the Department will continue to seek clarification of the Congressional intent of section 2492 of title 10, United States Code. This Food Transformation Initiative shows great promise in addressing the challenges of improving and enhancing Air Force food service, and could serve as the model for similar improvements across the Department. We appreciate the Subcommittee's continuing support of this initiative and, as requested, we will continue to keep you informed of its progress.

#### **CONCLUSION**

As you well know, these are trying times for our military community. Our people face the same challenges as the rest of the nation: an economy that is slowly recovering from recession, homes that aren't worth what many occupants still owe on them, and a job market that offers few opportunities, especially for spouses and teens. On top of those pressures, our people face the additional burdens associated with their military service: over a decade of engagement in hostile operations overseas, frequent deployments, many for extended periods of time, uprooting the family for a move to a different location for the needs of the Service, and the continued uncertainty about the budget and funding levels. Our civilian members have not been spared, but feel the stress in other ways: furloughs that cut into the family paycheck, hiring freezes, and elimination of pay raises and awards. Keep in mind that sequestration has only been

in effect for half a year. Without some relief, the Department faces nine more years of steeper funding cuts and ever more unprecedented fiscal uncertainty. At the very time of our people's greatest need, these funding cutbacks pose great risks to the programs and services on which our military members and their families depend.

I look forward to working with this Subcommittee to meet the needs of our military community, and thank you for your continued support. I welcome your questions.



**Rosemary Freitas Williams**  
**Deputy Assistant Secretary of Defense for**  
**Military Community and Family Policy**



Ms. Rosemary Freitas Williams serves as the Deputy Assistant Secretary of Defense for Military Community and Family Policy.

Ms. Williams is responsible for policy, advocacy, and oversight of all community support to service members and their families; quality of life issues; state liaison initiatives; family programs and the 24/7/365 online and call-in family assistance services; child development and youth programs; military spouse career advancement; the off-duty, voluntary education program for military personnel; tuition assistance; morale, welfare, and recreation; defense resale for commissaries and exchanges; and family violence prevention and intervention. Her oversight includes the Armed Forces Retirement Homes, casualty and mortuary affairs, and military funeral honors.

Prior to her appointment, Williams served as a vice president at Reingold, Inc., a social marketing and strategic communications firm where she was responsible for the strategic direction of media relations and oversight of the agency's public awareness campaigns, with a particular focus on issues affecting the veteran and military communities.

Ms. Williams' public sector career includes service as Director for Communication and Public Liaison at the U.S. Office of Personnel Management. In this position, she directed and coordinated all communication activities and strategies to engage the federal workforce and federal agency stakeholders, including Congress, media and the American public. Prior to joining OPM, she served as the Senior Advisor for Strategic Communications to the Secretary of the Department of Veterans Affairs. There she provided executive and strategic communications counsel and directed outreach to our nation's veterans, service organizations, other federal agencies, and the general public. Ms. Williams also served as the Department of Veterans Affairs representative to the White House Council on Military Families.

Before her government service, Williams enjoyed a 25-year broadcast journalism career, receiving numerous awards including a National Emmy Award for Team Coverage of the attacks on September 11th and the prestigious Edward R. Murrow Award for a documentary on apartheid in South Africa. She was a principal for many network start-ups, including MSNBC, NBC and Microsoft's 24-hour news channel where she was the Executive Producer of News.

Ms. Williams was awarded fellowships in Ethical Decision Making at the Poynter Institute for Media Studies in St. Petersburg, Fla., and in National Security at the Air War College, part of the U.S. Air Force's Air University in Montgomery, Ala. She has been published on the topic of mental health and today's military families and is author of the local history book, *Maritime Annapolis – A History*



NOT FOR PUBLICATION UNTIL RELEASED BY  
THE COMMITTEE ON ARMED SERVICES  
UNITED STATES HOUSE OF REPRESENTATIVES

STATEMENT OF  
REAR ADMIRAL ROBERT BIANCHI, SC, USN (Ret)  
CHIEF EXECUTIVE OFFICER, NAVY EXCHANGE SERVICE COMMAND  
BEFORE THE MILITARY PERSONNEL SUBCOMMITTEE  
OF THE  
COMMITTEE ON ARMED SERVICES  
UNITED STATES HOUSE OF REPRESENTATIVES  
NOVEMBER 20, 2013

NOT FOR PUBLICATION UNTIL RELEASED BY  
THE COMMITTEE ON ARMED SERVICES  
UNITED STATES HOUSE OF REPRESENTATIVES

Mr. Chairman and distinguished members of the subcommittee, I appreciate the opportunity to provide an update on the Navy Exchange Service Command (NEXCOM). Our programs have been and continue to be a major contributor to military quality of life and support a ready and able all-volunteer force.

Military service is much more than a career; it is a commitment made not only by service members, but also by their families. Deployments, long separations, and frequent moves are just a few of the challenges facing our military families. When the fiscal constraints of today's environment are added, it can generate more anxiety and uncertainty. Our military families must have confidence that their unique needs are not only understood, but are being met. Maintaining our nation's commitment to their quality of life remains a key factor to ensuring a strong military. In this era of sequestration, military family programs remain valuable assets and the role of those programs, which are predominantly nonappropriated funded, takes on new meaning.

In this fiscal environment, NEXCOM continues to deliver a desired and relevant benefit, providing a large return on investment for the taxpayer. Both the Navy Exchange (NEX) and the Navy Lodge Programs operate as nonappropriated fund instrumentalities requiring minimal appropriated funds. The limited appropriated funds provided to Navy Exchanges predominantly support overseas locations and confirms Congress's commitment to ensure our forward deployed Sailors and families receive comparable products and prices to their U.S. counterparts - a commitment all the more important because many of these overseas locations do not offer similar products near the installation, and in some cases such as Guantanamo Bay, Cuba, or Djibouti, Africa, no alternative source of merchandise exists. In return, Navy Exchanges provide approximately \$500 million in tangible savings annually to our military families, while still providing about \$45 million dividends annually to Navy Morale,

Welfare and Recreation (MWR) and additional capital investment funds to modernize Navy Exchange facilities. The final result is a six to one payback on funds provided through appropriated support.

The NEXCOM Enterprise has broad reach and touches many aspects of Navy life. Navy Exchanges provide quality merchandise and services at a savings to military families on 94 installations and sites with 303 stores worldwide. The Navy Lodge Program provides lodging for our military families - easing the transition of frequent moves - at 40 locations worldwide. With 158 Ships Stores, the Ships Store Program provides essential items for our Sailors and Marines at sea and generates funds to support their recreational and leisure needs. To help Sailors and families stay connected, the Telecommunications Program Office partners with industry to provide personal calling at sea and internet and cellular services ashore. NEXCOM's Uniform Program Management Office manages government-issue uniforms for enlisted personnel E1-E6, commercial uniforms for Chief Petty Officers and Officers, and assists Navy with fleet organization and protective clothing requirements. The Navy Clothing and Textile Research Facility conducts research, development, testing, evaluation and engineering support on Navy uniforms and personal protective clothing and provides similar support to other military services and government agencies. Everyday our military families rely on us for casual dining, hair care, auto services, gas, laundry and much more. At overseas locations, NEXCOM operates six NEXMarts providing the commissary and exchange benefit where a stand-alone commissary is not economical, provides school lunches for the Department of Defense Education Activity, and other quality of life programs to help families, such as utility bill paying at Navy Exchanges and quick and easy purchase of gas ration cards. We make military life a little easier for our families, no matter where they are in the world, both at sea and ashore.

One example of touching our military members' lives is the opening of our new Subway at Camp Lemonnier, Djibouti, Africa. At the request of the command, NEXCOM and Subway worked together



to deliver a Subway restaurant in only six months. This was quite an achievement as this is the first Subway in Djibouti and the first Subway located on a military base in Africa. Troops stationed there were excited to have the new restaurant on base. "It's like walking into a different world," said a Master Sergeant of the 81<sup>st</sup> Expeditionary Rescue Squadron. "A soldier in my command had been feeling down and missing home. After going to the Subway, he was like a different guy. He got a little taste of home." In its first week of operation, over 7,700 purchases were made at Subway.

While NEXCOM's primary business is retail, we are first and foremost a military command. Navy's Morale, Welfare and Recreation/Navy Exchange Board of Directors is comprised of senior Navy leaders who balance the needs of both programs for adequate operation and capitalization funding to ensure optimal program delivery to Sailors. As a Navy command, we are aligned with Navy to support many important initiatives. For example, in support of Navy's expeditionary requirements, we recently opened Navy Exchanges in Jebel Ali (Dubai) and Isa (Bahrain). In Jebel Ali, the 6,000 square foot store is located on a compound occupied by the U.S. Navy and will bring the Navy Exchange benefit to Sailors stationed in and around the Dubai area, as well as military personnel transiting the area aboard ships. The first ship to visit the new store on opening day was USS THE SULLIVANS (DDG-68). The crew was elated to have the opportunity to shop in their NEX; first hour sales showed 72 customers had purchased 587 items. The ship's Command Master Chief said the crew liked what they saw, "The crew has enjoyed and used it (the NEX). I have heard nothing but positive feedback so far. Good selection and the staff was very helpful." During 2012, in an effort to reduce redundancy and improve merchandise availability, the appropriated fund supply chain for Ships Stores was transferred to NEXCOM for Seventh Fleet ships in Japan and Guam. This project provides a cost savings to Navy as the same merchandise inventory is used to supply Ships Stores and NEXs. We have aligned the products we sell with the Secretary of the Navy's 21<sup>st</sup> Century Sailor and Marine

initiative. To emphasize Navy family values, we revised and refreshed our approach to the traditional “Black Friday” sales event for the holiday season. Our “Navy Blue Holiday” offered sales and specials across the entire holiday period, including a pre-Thanksgiving weekend sales event for our deployed Sailors featuring special merchandise identified by Sailors. Our advertising flyers help Navy communicate valuable messages on programs such as sexual assault, motorcycle safety, alcohol deglamorization and Wounded Warrior programs. In an effort to solidify the value and relevancy of NEXCOM and its products and services in our Navy customers’ minds, NEXCOM undertook a rebranding effort across the entire enterprise. The program features signs, murals and other branding elements stressing the core values, mission and history of the Navy. These enhancements have not only built a strong connection with the mission of the installations and the Navy, but they also achieved a personal connection with our customers. Through our customer satisfaction surveys, our Sailors and their families recognize this connection and tell us they view Navy Exchanges as a strong element of Navy life and know the Navy is committed to taking care of their families’ needs.

The number of dual-income families has greatly increased in the U.S. and our military families are no exception. Military family members comprise twenty six percent of NEXCOM’s work-force. Through our Continuity of Employment program, military spouses can retain their NEXCOM employment and benefit status as they transition with their military member around the world. We are a proud participant in the Military Spouse Employment Program to further support military spouse careers. When combined with our veteran and Wounded Warrior hiring programs, our military-related associates represent over one third of our workforce.

As the American standard of living changes, our military quality of life programs must also change continually to meet our military families’ expectations. Remaining relevant to military families is important to the success of our programs. To reach our patrons located far from a Navy installation,

including our Reserve, National Guard and retirees, NEXCOM continues to improve our NEX online store, [www.myNavyExchange.com](http://www.myNavyExchange.com). New products launched last year included shoes, handbags, jewelry, fragrances and toys. More of our customers are also shopping online. As part of our commitment to continue to offer our customers low prices every day, we have expanded our Price Match Policy on many popular websites. Health and wellness are important to our military families. To encourage a healthy lifestyle and support DoD's Healthy Base Initiatives, NEXCOM is launching "A Better You" campaign in our stores, highlighting products and services that support our families' wellness needs. To help our families stay in touch and current with today's technology, free Wi-Fi service was installed in all Navy Lodges and Navy Gateway Inns and Suites. Wi-Fi service was also completed in 92 percent of all of Navy's Unaccompanied Housing. Our most significant installation was the completion of Wi-Fi service for Camp Isa Bahrain. We will continue to meet our families' evolving needs by soliciting their feedback through customer surveys, focus groups and social media.

NEXCOM's support for the warfighter, the deployed Sailor and Marine, does not stop pierside. The Ships Store Program embarked on the development and deployment of a new point of sale system for ships that will simplify workload afloat, move workload from the ship to ashore and be easier to maintain with lower sustainment costs. Prototype programs were kicked-off focusing on greater benefits to females afloat including the first cosmetics program. This past year, we began an afloat rebranding initiative to bring a fresh new look to the shipboard stores and improve Ships Store merchandising standards. The remodeling brought more variety in the store's products and easier access for the customer. The USS HARRY TRUMAN (CVN 75) was the first carrier to receive the rebranding and opened to much success with the crew.

Our commitment to the sustainability of our environment continues. Our forward-leaning posture toward alternative fuels, together with our concession partner, NEXCOM installed Electric Vehicle

(EV) charging stations at NEX Bethesda, MD and NEX San Diego, CA. An EV charger is planned for NEX North Island, CA in 2013 and Annapolis, MD in 2014. NEXCOM facilities received Leadership in Energy and Environmental Design (LEED) certifications recognizing the design, construction and operation of high performance green buildings. The certification of LEED Gold for our new Navy Exchange Bethesda, MD and Navy Lodge North Island, CA and LEED Silver for our Navy Lodge Gulfport, MS recognizes the numerous energy cost savings, as well as reduced solid waste measures NEXCOM incorporated in these buildings. As Navy utility budgets continue to be stretched, NEXCOM has been a key partner with installations in energy conservation, reducing the energy footprint by raising thermostats and setting store standards for lighting to reduce consumption; delicately balancing retail business needs and the challenges faced by our installation leaders. We recognize our responsibility to be active partners to reduce future consumption as we implement new energy initiatives.

The NEXCOM Enterprise's financial position remains strong. In 2012, total Navy Exchange annual sales were \$2.8 billion with a net profit of \$64.8 million, which resulted in \$45.9 million in dividends for MWR programs and \$74.2 million for reinvestments in Navy Exchange recapitalization to improve customers' shopping experience and remain competitive within the retail market. Total annual sales for Navy Lodges were \$75.1 million which provided for \$11.8 million in nonappropriated funds available to modernize our lodges. Ships Store sales were \$74 million with profits of \$11.6 million returned to the ships for their recreation programs.

It is important for us, as a government organization, to remain mindful of the fiscal environment in which we are currently operating and ensure our operations are aligned with the Department of Navy as well as the Department of Defense (DoD). We anticipate potential reductions in appropriated fund support to NEXs, as well as the MWR program, and recognize our responsibility to optimize our

nonappropriated funds. Nonappropriated funds belong to the military members, not the taxpayer. As good stewards of these Sailors' dollars, we examine our budgets, expenses and priorities to help mitigate any additional NAF costs and protect our bottom line profitability. Navy Exchanges generate profits that are an important financial contribution to MWR. We will continue to balance our commitment to providing MWR with needed nonappropriated funds to augment their programs with our commitment to help our military families stretch their paychecks with savings on the products and services they need.

To help meet these challenges of today's fiscal environment, we are partnering with Army Air Force Exchange Service (AAFES), Marine Corps Exchange (MCX), Defense Commissary Agency (DeCA), Coast Guard Exchange (CGX), Veterans Canteen Service (VCS) and MWR to optimize our nonappropriated funds. Through the Cooperative Effort Board (CEB), we have found benefits and savings through teamwork with AAFES, MCX and DeCA via container sharing, utilizing transportation efficiencies, and joint contracts. NEXCOM provides travel claim assistance and supply chain support to the CGX; EEO, audit and loss prevention services to Navy MWR; and supply chain support to MCX and VCS. One effort alone, a shared contract with AAFES, MCX, and CGX, supplies store and merchandise security equipment yielded a cost savings of \$9.6 million. Other contracts include unofficial wireless services, market business intelligence information, automated retail stores, food service concepts, portable storage units, personalization shops, home delivery, income tax preparations, and car rental services. We all recognize the valuable role we play in helping our services meet their commitment to quality of life at a reduced cost to both appropriated and nonappropriated funds.

NEXCOM continues to invest in technology to remain relevant to our customers while improving business processes and driving internal efficiencies. Deployment of our new personnel recruitment

software has significantly improved our reach to potential employees while reducing paperwork processing through an online recruitment process and simultaneously reducing the onboarding time for new employees. Our new Point of Service system will improve customer throughput at the register, while delivering improved promotional functionalities and drive customer savings.

Our public private partners take on a more important role as we look at alternatives to deliver the name brand services our customers' desire, while still contributing to our overall profitability. Through these partnerships, we provide name brand food, automotive, laundry/dry cleaning, optical, tax preparation and vehicle rental services to name a few. We will continue to increase our portfolio to help us reduce our operational and investment expenses.

Another key element to the future viability of the Navy Exchange Enterprise is capitalization. Our capitalization plan is focused to meet the objectives of facility life extension, operating efficiencies through facility consolidation and relocation, response to changing demographics, and return on investment. Robust capital investments in stores continue to enhance the shopping experience while driving efficient work flow processes. Our new leased Northeast Distribution Center (Suffolk, VA) designed and built specifically for NEXCOM's workflow, incorporated the latest advancements in automation to reduce labor costs of the distribution process and improve product throughput. The consolidated facility is one of three of NEXCOM's critical distribution nodes, serving the east coast, Europe and Cuba while also supporting over 120 of our sister MCX stores. Last year we invested over \$74M in nonappropriated facilities and equipment; providing a return on our investments and improving service to our customers and our bottom line.

In 2013, we received two industry awards focused on our associates and customer service. For the second year in a row, *LATINAStyle* Magazine named NEXCOM as one of the top 50 companies in the United States for providing the best career opportunities for Hispanic women. To ensure our military

families receive the best customer service, we instituted our PREMIER Customer Service Suite of Learning Tools, which recently received the American Society for Training and Development Excellence in Practice citation in the Sales Enablement category. Our associates have really embraced the PREMIER Customer Service training program and it shows in our high Customer Satisfaction Index scores.

The commitment of our associates and their dedication and appreciation of our military customers is paramount to our success. They are truly a team of professionals who are passionate about our mission. I have personally witnessed the emotional connection our associates have with our customers, particularly overseas. In many of our locations, they know our Sailors by name and are willing to go the extra mile to ensure their needs are taken care of.

We cannot do this alone. I want to acknowledge the dedicated support we receive from our industry partners. From ensuring we have the current products our families want, to celebrity visits to our military installations, they share our commitment to our military and are invaluable in helping us deliver a sustainable and relevant benefit in the future. We will continue to work side by side with them as we strive for more efficient operations, particularly in supply chain initiatives. We value their expertise and deeply appreciate all they do for our military members.

This subcommittee's support of our military is both appreciated and needed. Your continued support for the preservation of second destination transportation funding is valuable in our ability to help our overseas families meet the challenges of living so far away from home. We rely on your vigilance in protecting their quality of life benefits and on their behalf, I thank you.

In closing, I would like to share a letter from a military family member that shows not only the importance of the Navy Exchange benefit to our military families, but also the dedication of our associates to take care of them, particularly those serving overseas.

Good morning,

I am writing to thank you and one of your employees, Audrey Edwards, for the exceptional service I received last week. To make sure you understand how important what she did was to me I need to tell this story. On our first wedding anniversary I presented my wife with a long stem yellow rose as a symbol of the successfully completed year. On the second anniversary she received another yellow rose along with a red one representing 2 years. Each year since I have added another red rose totaling the number of years we have been married. Over the years, even when her naval career has separated us, from Great Lakes to Hawaii to London to Iraq (they were silk for that one), I have managed to make sure she received the flowers on our anniversary. During a recent visit to my wife, who is stationed at Naval Hospital GTMO, we celebrated our 32nd wedding anniversary. Imagine my disappointed horror when I arrived on island and discovered there was not a flower to be had and I needed 32 of them. After exploring all other possible options from silk to ceramic I decided I would have to learn to make paper ones. While on my quest for yellow tissue paper I met Audrey Edwards, the beautiful young lady working in the NEX personal services shop. After discussing my plight with her, where she discovered I had no idea how to make a paper flower, she offered to make them for me. We agreed on a price and a completion date, I left my materials with her, crossed my fingers because I didn't know what to expect, and left the store. Several hours later I was passing by and saw through the window that she was hard at work making my flowers and had several of them done already. Upon closer inspection her creations were beautiful, and I was no longer worried that this would be the year I'd fail to get flowers to my wife. My wife, who knew there were no flowers available so was not expecting any, was very surprised and pleased when she found them on her desk on our anniversary day. I had recruited one of her coworkers to help with the delivery. I cannot well enough express my gratitude for the exceptional service Audrey provided or tell you how truly impressed we are with the bouquet she created. She went well above any reasonable expectation for service that I had. Her willingness to share her talent on behalf of the NEX has got to make her one of, if not the best, employee you have. She is a treasure..

Thank you from a very pleased customer.  
Joel Brandenburg

It is our honor to help our dedicated military families meet the stresses and challenges of military life. We will continue to work together with the other services, industry and this subcommittee to ensure the most optimal use of our valuable nonappropriated fund resources. Together we will show our military families that their needs have not been forgotten and their sacrifices and commitment do not go unnoticed.



## Chief Executive Officer, Navy Exchange Service Command

**Rear Admiral, Supply Corps, U.S. Navy (Ret.) Robert J. Bianchi**  
Supply Corps, United States Navy, Rear Admiral (Ret.)  
Navy Exchange Service Command



Robert J. Bianchi, Rear Admiral, Supply Corps, U.S. Navy (Ret.) is the Chief Executive Officer for the Navy Exchange Service Command (NEXCOM). In this position, he provides leadership and management oversight for the \$3 billion annual worldwide operations of Navy Exchanges, Navy Lodges, Ships Stores, Navy Uniform Program Management Office, Navy Clothing and Textile Research Facility and Personal Telecommunications Services.

Bianchi is NEXCOM's first civilian Chief Executive Officer. He joins the command after retiring from the U.S. Navy with more than 29 years of service as a Navy Supply Corps Officer. While in the Navy, he served in various senior leadership positions including Assistant Deputy Chief of Staff for Fleet Readiness and Fleet Supply Officer, U.S. Fleet Forces Command; Commander, Navy Exchange Service Command; Deputy Commander for Aviation, Naval Inventory Control Point; Military Advisor to the Deputy Under Secretary of Defense (Logistics & Materiel Readiness); and Supply Officer, USS Harry S. Truman (CVN 75).

A native of Vineland, N.J., Bianchi attended the University of North Carolina at Chapel Hill on a Navy ROTC scholarship, receiving a Bachelor of Arts degree in Mathematics. Upon graduation in 1982, he was commissioned an ensign in the U.S. Navy Supply Corps. He earned a Master's degree in Business Administration with distinction from Harvard University in 1992, and completed the Wharton School of Business Executive Development Program in 2003.

Bianchi's military awards include the Defense Superior Service Medal, the Legion of Merit (three awards), the Meritorious Service Medal (six awards), the Joint Service Commendation Medal, the Navy and Marine Corps Commendation Medal (two awards), and the Navy and Marine Corps Achievement Medal (two awards).

STATEMENT BY:  
THOMAS C. SHULL  
DIRECTOR AND CHIEF EXECUTIVE OFFICER  
ARMY AND AIR FORCE EXCHANGE SERVICE  
BEFORE THE  
MILITARY PERSONNEL SUBCOMMITTEE  
OF THE  
COMMITTEE ON ARMED SERVICES  
UNITED STATES HOUSE OF REPRESENTATIVES  
113TH CONGRESS 1st SESSION  
HEARING ON  
MORALE, WELFARE AND RECREATION PROGRAMS  
AND RESALE ACTIVITIES  
20 NOVEMBER 2013

NOT FOR PUBLICATION  
UNTIL RELEASED BY  
THE HOUSE ARMED  
SERVICES COMMITTEE

Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to testify today about the Army and Air Force Exchange Service (AAFES) and all we do to enhance the probability of mission success for members of the Armed Services, their families and military departments. Before I proceed with my remarks, I would like to thank the Committee for its commitment and dedication to supporting and defending the exchange benefit for service members around the world.

I am the son of a career Army officer. I served more than a decade as an Army officer myself before embarking on a business career, primarily in retail. In the past, I have served as CEO of a major retailer, a large direct marketing corporation and a top regional packaged goods company. I joined AAFES in June of last year as the first civilian Director/Chief Executive Officer, following a long and distinguished line of military commanders. Being both an Army dependent and a graduate of the U.S. Military Academy at West Point, joining AAFES has been like a homecoming. I am deeply honored to be part of this great organization and serve those who defend our country. It is truly an honor to serve those who serve.

Growing up as a dependent living on Army posts and later as an active duty soldier, I viewed AAFES simply as the PX and on-post movie theater. After 17 months with this outstanding team, I have realized just how much more AAFES does for soldiers, airmen, retirees and their families.

While AAFES exists to make military life better for those Americans who wear the uniform, our two-fold mission guides everything we do: to provide quality merchandise and services at competitive prices and generate earnings that support the Services' morale, welfare and recreation programs.

AAFES is a multi-channel retailer, providing a seamless customer experience online, downrange and within 3,700 brick-and-mortar facilities in 33 countries, all 50 states and five U.S. territories. AAFES operations are currently comprised of: 131 main stores; 167 Military Clothing locations; more than 550 specialty stores; (Express convenience stores, car care centers, Class Six, barber/beauty shops, and book stores); 187 troop stores; 65 movie theaters; nearly 1,600 fast food restaurants (offered through franchise and concession agreements with 45 name brand providers such as Taco Bell, Burger King and Pizza Hut).

AAFES is unlike any other retailer as all offerings are unique to the local mission with a focus on recruitment, retention and supporting the military. This customized experience is recognized by shoppers as a recent study by the Center for Strategic and Budgetary Assessments on military compensation stated, "...a majority of service members from all ranks and age groups value the exchanges as much or more than they cost to provide."

Whether it's an airman in Thule, Greenland or a soldier in Afghanistan, AAFES goes where service members go to make their lives better. While no other retailer can make that statement, the value of AAFES extends far beyond service.

We are bringing a fresh approach to the 118-year-old exchange benefit. Our passion for serving the military family and saving the American taxpayer money remains steadfast. AAFES saves taxpayer dollars by ensuring less than 3% of all operating expenses are supported by appropriated funds.

Beyond a self-sufficient structure, AAFES continues to be a good steward of funding and provides support in the form of: at-cost DoD school meals, overseas bakery plants, capital improvement expenditures and contingency operations. In addition, AAFES generates monies

that benefit military families the world over. In the past ten years, AAFES has contributed more than \$2.4 billion to Morale, Welfare and Recreation (MWR) programs. Just last year, AAFES provided nearly \$224 million in dividends back to the services to support critical quality of life efforts. In addition to providing a large financial dividend, AAFES assists MWR with expanded marketing and communication as well as its expanded online reach for programs such as information, ticketing and registration. In a time of constrained budgets and funding, the value provided by exchanges and AAFES, for taxpayers and our military personnel, is even more imperative.

Like any commercial entity worthy of an investor's hard earned money, AAFES operations anticipate future challenges and adapt to current circumstances. As such, the organization has taken a proactive approach to reducing costs. In the last 17 months, AAFES has lowered overhead expenses by more than \$100 million. We have decreased full-time staffing by more than 3,000 while simultaneously reducing costs related to transportation, utilities, travel, supplies and personnel moves.

AAFES has partnered with the Army to reduce second destination transportation funding by at least \$21 million for 2013. AAFES also conducted a thorough review of its supply chain resulting in the realignment of distribution centers. As part of ongoing efficiency efforts related to transportation, the National Defense and Transportation Association formally recognized AAFES, on Sept. 18, with its Innovative Logistics Service award.

On the capital improvement front, we took a hard look at long range capital construction plans for the coming years and reduced expenditures from \$86 million in 2012 to \$29 million planned for 2013.

Drawing upon commercial best practices, dividends to support installation morale, welfare, recreation and quality of life programs have gone up approximately 10% over last year as AAFES expenses, especially overhead, continue to decrease. In an environment of tightening budgets, we remain focused on continuing the trend of reduced costs and maximized returns for airmen, soldiers, retirees and their families.

As we improve efficiencies, AAFES continues to exceed shoppers' performance standards. AAFES received an overall score of 75 from the 2012 American Customer Satisfaction Index (ACSI), with rankings higher than or equal to the industry average for perceived and service quality as well as customer expectations. AAFES has also been working on improving the online shopping experience; our ACSI score for website satisfaction was a 77, a nine-point increase from 2011.

With that said, we have a variety of programs in place to keep shoppers happy for many years to come. For example, we are developing opportunities to call out brand exclusivity and first-to-market assortments while launching store-in-store concept shops that drive brand awareness. Our team continues to review store assortments to deliver an even better shopping experience. As part of this process, we have made significant category moves as main stores are repositioned to optimize space with best-selling commodities and trend-right categories are placed in highly visible positions.

For busy military families on the go, AAFES is offering expanded healthy eating options and creating new in-store food preparation concepts in its Express convenience stores. Our commitment to improvement extends to concession operations as we work to add regional and national name brands, seasonal pop-up stores and store-in-store concepts. Regardless of how a shopper interacts with their exchange benefit, AAFES is determined to incentivize repeat visits

through the development of a loyalty program that will inform customers about special promotions.

Online, we are updating [shopmyexchange.com](http://shopmyexchange.com) to include most main store assortment items, offer consistent and fast processing and shipping as well as provide for no-hassle returns. On August 1st, AAFES announced a major investment in an enhanced website with improved order fulfillment capabilities that, by this spring, will deliver a main store experience that is only a click away.

Shoppers utilizing their exchange benefit virtually, or at a brick and mortar facility, will notice AAFES is intensifying the presence of national brands such as Michael Kors, Ralph Lauren, Apple, Under Armour, Estee Lauder, New Balance and Walt Disney. As of August 9th, AAFES offers first-run movies in the continental United States for the first time in the organization's history, thanks to a recent agreement with Walt Disney Studios.

Whether serving popcorn to an Air Force family taking in a new movie, providing healthy choices for school lunches, pouring a cup of Starbucks coffee for a soldier far from home or outfitting a spouse for that special night out, people are at the core of all we do. AAFES associates bring a special skill set and passion to our theaters, restaurants and stores as many have a direct connection with those they serve. Today, more than 14,000 of approximately 40,000 AAFES associates have a military connection, including spouses, veterans, reservists and active duty members. AAFES aggressively recruits veterans through initiatives such as "Feds Hire Vets" and its "Detail to Retail" management trainee program, where veterans learn how to become future leaders in a retail setting.

Since 2010, AAFES has hired 434 Wounded Warriors. Our “Operation War Fighter” program provides internships designed for wounded, ill and injured service members to assist in their development of skills needed for transition into the civilian workforce while undergoing treatment. In addition, our Wounded Warrior hiring program includes partnerships with the Wounded Warrior Project as well as other military hiring agencies.

Commitment to Wounded Warriors extends beyond jobs. In partnership with the Army, AAFES not only provides free alterations worldwide for these special shoppers, but has also taken Wounded Warrior support to another level with the first-ever Wounded Heroes Service Center at Kleber Kaserne, Germany. This handicap-accessible center, designed especially for Landstuhl military hospital patients, provides personal shopping and alteration services along with a full assortment of uniforms, hats, boots and gloves made for Wounded Warriors’ specific needs. As a result of the special connection we share with those who serve, AAFES was recently selected as a 2014 Military Friendly Employer and will be featured in the December editions of both *G.I. Jobs* and *Military Spouse* magazines as well as a variety of third-party media outlets.

Our team’s devotion to service knows no geographic boundary as demonstrated by the fact that more than 4,300 AAFES associates have deployed to combat zones since 2001. I salute these Americans who have left the comforts of home and family to voluntarily go to sometimes dangerous and austere locations, where long hours and risks await them. Without the devotion of these everyday heroes AAFES could not operate 41 facilities throughout the contingency theater, in countries like Afghanistan, Kuwait, Kyrgyzstan, Oman and the United Arab Emirates, and provide critical logistical support to our military members.



Closer to home, AAFES has played a vital role in mission support in the aftermath of Superstorm Sandy and numerous other support operations in the United States. Our commitment to go where soldiers and airmen go, and support commanders on the ground, helps enhance the readiness of the military.

Wherever soldiers and airmen are called to serve, AAFES partners with Defense Logistics Agency Troop Support to provide official one-stop service for all military uniform and accessory needs, at cost.

From uniforms to food, AAFES' commitment to service extends to every member of the military family. Our organization ensures service members, spouses and children have access to healthy and safe sustenance through bakeries and bottled water plants in both Europe and the Pacific. These operations not only support AAFES facilities, but also deliver products to Navy and Marine Corps Exchange and DeCA shelves as well as U.S. Army Installation Management Command (IMCOM) facilities and DoD schools.

Fresh baked goods and safe water are reminders of the importance and, in today's constrained fiscal environment, necessity of collaboration and cooperation. We continue to actively work with the Cooperative Efforts Board to identify opportunities that enhance efficiencies for all military resale entities including our sister exchanges and DeCA. Additionally, AAFES proactively partners with Army and Air Force MWR to pursue cross-marketing and telecommunications initiatives and has even embarked on a pilot program to share facility space and create synergies at installations we both serve.

Quite simply, AAFES is a force multiplier enabling military departments, families and service members to focus on their core missions and, ultimately, enhance the entire community's quality of life and readiness.

In closing, Mr. Chairman, I would like to again thank you and the members of the committee for your continued support of the military exchanges. Together, we ensure that wherever service members are, AAFES is there to support them because we know that these operations increase the combat potential of America's forces and enhance the probability of mission success for our troops and our country.

I look forward to your questions.



**Thomas C. Shull**  
**Army & Air Force Exchange Service**  
**Director/Chief Executive Officer**

Tom Shull is Director/CEO of the Army & Air Force Exchange Service (Exchange), headquartered in Dallas, Texas. The Exchange is the 43rd largest retail organization in the U.S. with annual revenue of \$10.3B and approximately 41,000 employees. The Exchange operates retail and convenience stores, gas stations, restaurants, theaters, vending and other businesses on military installations in all 50 states, five U.S. territories and more than 30 countries.

Mr. Shull is a 1973 graduate of the United States Military Academy, West Point, N.Y. where he earned a Bachelor of Science degree. He received a Master of Business Administration with honors from Harvard Business School in 1981. His military schooling included Ranger and Airborne Schools. He had numerous line and staff assignments including Assistant Professor at the U.S. Military Academy and commander of a mechanized Infantry company. His awards and decorations include the Defense Superior Service Medal, Meritorious Service Medal, Expert Infantryman's Badge, Ranger Tab and Airborne Wings. In his last active duty assignment, then-Major Shull was Military Assistant to Robert C. McFarlane, Assistant to the President for National Security Affairs.

Prior to his selection as the first civilian Director/CEO of the Exchange, Mr. Shull co-founded and served as CEO of Meridian Ventures, Inc. From 2010 to 2012, he advised numerous retail clients on improving revenue and profit.

From 2008 to 2009, Mr. Shull served as the court-appointed Chief Restructuring Officer of Fred Leighton, a high-end jewelry retailer in New York City. Mr. Shull was Chairman of Wise Foods, Inc., one of the nation's leading regional snack food companies, from 2004 to 2008. He also served as CEO from 2004 to 2006. From 2000 to 2004, Mr. Shull served as Chairman, CEO and President of Hanover Direct, Inc., a direct marketing company.

From 1997 to 1999, Mr. Shull served as President of Barneys New York, a leading luxury retailer, serving additionally in the CEO role from July 1998 until 2000. Prior to Barneys, he was Executive Vice President of the R.H. Macy Company, Inc., responsible for Human Resources, Information Technology, Business Development, Strategic Planning and Merchandise Distribution.

He is past Chairman of the Deafness Research Foundation, the largest private charity for funding research in the causes and treatment of hearing loss. In addition, he is a former member of the Board of Trustees for the Association of Graduates of the U.S. Military Academy.

(Current as of September 2013)

**STATEMENT OF**  
**JOSEPH H. JEU**  
**DIRECTOR, DEFENSE COMMISSARY AGENCY**  
**BEFORE THE**  
**MILITARY PERSONNEL SUBCOMMITTEE**  
**OF THE**  
**COMMITTEE ON ARMED SERVICES**  
**UNITED STATES HOUSE OF REPRESENTATIVES**

**FIRST SESSION, 113<sup>th</sup> CONGRESS**

**November 20, 2013**

**NOT FOR PUBLICATION UNTIL RELEASED BY  
THE HOUSE ARMED SERVICES COMMITTEE**

Chairman Wilson, Ranking Member Davis, Members of the subcommittee, the commissary continues to be one of the most valued non-pay compensation benefits our military members, past and present, and their families enjoy. This integral element of the total compensation package plays an important role in the economic well-being of our military families providing patron savings of over 30 percent compared to civilian supermarkets, allowing patrons who consistently use the commissary to save nearly \$4,500 per year for an average family of four, over \$2,800 for a couple, and more than \$1,500 for a single Service member. The commissary not only enhances the quality of life for military families, but also provides an excellent return of \$2.00 in patron savings for every taxpayer dollar invested. However, this two for one return on investment is insufficient to shield the commissary from scrutiny as it faces the same fiscal challenges as other government agencies.

Commissary patrons were significantly impacted by sequestration. The Department-wide hiring freeze harmed customer service. With the Defense Commissary Agency's (DeCA) high turnover rate of lower graded employees in our stores, the hiring freeze quickly reduced manning levels and over two-thirds of our stores fell below the manning levels required to effectively run the stores. While the Department has provided some relief by allowing the hiring of personnel, the cure is not immediate because of the employee vetting time lag. The closure of most stores for one day a week for six weeks because of the furloughs necessary to meet the 2013 sequestration requirements impacted customers further. Customer complaints rose by over 50 percent and hit an all-time high during the furlough. While our employees struggled to provide our goal of excellent customer service, they could not always overcome the challenges. Customers often found

long checkout lines, closed registers, and empty shelves. Checkout wait times of 20-30 minutes were not uncommon. A 20 percent reduction in pay during the furlough period was particularly hard on our store employees, many of whom are part-time and need every dime of their regular earnings to make ends meet.

The sales figures also show the impacts of sequester. Sales for fiscal year 2013 were down \$210 million or 3.5 percent versus fiscal year 2012. Likewise, there were 3.9 million or 4.0 percent fewer patron shopping visits versus last year. Commissaries experienced a sales loss totaling over \$99M driven by sequestration closures in FY 13 and government shutdown closures in October of FY 14. And we were also forced to cancel our popular on-site sales at Guard and Reserve locations and the case lot sales provided at virtually every store. To make up for the loss of case lot sales, several vendors are offering specials in our lower 48 U.S. stores with discounts ranging from 40 to 50 percent off on their products. These limited time period specials are less costly for the commissary to support but still provide our customers with extra savings in their pocket.

Customers were not the only ones to experience an impact. Our distributors faced sporadic delays in offloading deliveries at commissaries; orders frequently being held up or delayed resulting in overtime for the distributor and late deliveries; shipment of wrong products and damages not processed in a timely manner; and ordering delays due to closures making scheduling a challenge.

**Cost Reduction Culture.** While I am pleased to report that DeCA is fully funded in the President's fiscal year 2014 budget, if sequestration is not addressed its impact on the commissary benefit is likely to be considerable as the Department establishes priorities and balances resources. Yet, DeCA has a proven history of taking cost out of the system.

Since its activation on October 1, 1991, DeCA's pre-BRAC operating costs have been reduced by over \$700 million and its workforce reduced by over 2,500 full time equivalent positions. DeCA also reduced its inventory by over \$500 million. Over the past 20 years, we have "picked the low hanging fruit" by seeking innovative initiatives to achieve operating efficiencies and through good stewardship of taxpayer dollars as we made the commissary system significantly less costly to operate. Examples of these efficiencies and cost reductions include: the elimination of warehouses and associated inventory and commissary employees in the contiguous United States; the centralization and automation of accounting functions; and consolidations of headquarters and regional offices. With this history, any further reduction resulting from sequestration will diminish the commissary benefit.

**Performance Measures:** Prior to sequestration we had an impressive year in fiscal year 2012—sales were up, topping the \$6 billion level for the first time since 1992; the cost of delivering the commissary benefit, once again, came in under budget; customer service scores and patron savings levels remained relatively constant.

Prior to sequestration, patrons continued to confirm the value provided by the commissary benefit, expressing their satisfaction with an overall customer service rating of 4.61 on a scale of 5, slightly under last year's score. Again this year our internal measures were validated externally by the American Customer Satisfaction Index (ACSI). DeCA's latest score increased to 82, the highest score ever for DeCA, significantly exceeding the ACSI commercial supermarket industry average of 77. DeCA's score of 82 is exceeded by only one commercial grocery chain. Customers reported to ACSI once again that DeCA's

strengths are: “customer satisfaction” and “perceived overall quality”, with “perceived value” scoring highest of all retail outlets measured.

**Financial Accountability.** In fiscal year 2012 DeCA earned its eleventh consecutive unqualified audit opinions on annual financial statements. This continues an unblemished record since 2002 of achieving unqualified opinions on our consolidated financial statements—a feat matched only by three other defense activities. DeCA also continues its role as a Departmental leader for its annual Statement of Assurance, implementing the requirements of the Office of Management and Budget Circular A-123, *Management’s Responsibility for Internal Control*, Appendix A. The effective linkage of accountability and audit readiness to internal controls over financial reporting has made DeCA a model of Government accountability.

**Sustainability.** DeCA’s goal is to provide healthy products produced in an environmentally and socially responsible manner. Recognizing that the retail sector’s sustainability concept is a changing and evolving process, DeCA, nevertheless, endeavors to integrate sustainability into its operations. Our sustainability policy includes not only the products sold, but the retail operation itself. Simply stated our policy is:

“Consistent with price, quality, and customer preference, DeCA will endeavor to provide patrons with products produced through sustainable methods. In addition, DeCA will continue to showcase domestic products and encourage its contractors to, where practical and again consistent with price, quality, and customer preference, work with local producers and provide fresh meat, poultry, seafood, fish and produce for sale in commissary stores.”

DeCA is committed to conducting business in a manner that adds value for our patrons and our stakeholders, including the American taxpayer. For example, DeCA has worked hard to reduce energy use since 1993 and achieved high levels of energy efficiency



prior to the establishment of Federal energy reduction goals. As a consequence, today a typical commissary is much more energy efficient than a commercial supermarket. DeCA opened its first "green" commissary, equipped with the newest energy-saving features, in Ansbach, Germany this year; and the new store in Portsmouth, Virginia featured our first commissary with energy-conserving glass doors on most display cases. Future initiatives include a worldwide equipment assessment to meet fiscal 2015 energy and water goals, starting web-based refrigeration monitoring, testing low ambient "layered" and "day" lighting, establishing an energy reporting website, and providing annual computer-based, energy efficiency training for the agency's facility energy supervisors.

During Earth Week commissary customers found extra savings on earth-friendly items such as carbon fluorescent light bulbs and a good assortment of green cleaning products and high-efficiency laundry cleaning products. There are also innovative waste-reduction products such as paper towels and bathroom tissue without cardboard tubes, so there is nothing to throw away after the last towel is used.

Diverting the commissary store waste stream from landfills is paramount. Every effort is made to reduce the amount of waste disposed of as garbage. Actions including recycling, composting and food donation will assist in achieving this goal. DeCA continued its active recycling program, generating over \$3.6 million in revenue by recycling over 60,000 tons of cardboard and 1,300 tons of plastic. We diverted over 11 million pounds of garbage from the waste stream by composting and our stores donated over a half a million pounds of food stuffs to those few food banks that had been designated by the Secretary as eligible to receive food donations from commissaries. This coming year we will actively engage additional local food banks to determine their interest

in seeking designation as authorized food donation recipients and will continue to encourage our industry partners, whose unsalable products are on buy back, to participate in the food donation program. Another 730,000 pounds of food were collected at commissaries in support of the Feds Feed Families program.

**Construction:** This year we conducted a comprehensive review of the requirements for surcharge funding and projected revenue to include not only facilities, but also information technology and equipment costs. Including facilities maintenance, information technology and equipment requirements, the total surcharge construction backlog as of fiscal year 2013 is \$354M, but is projected to grow to \$779M by fiscal year 2022. We have taken a number of steps to address the shortfall by reducing construction costs. For example, DeCA has eliminated the mechanical mezzanine, simplified the ventilation system below frozen food storage rooms, and moved refrigeration piping, and power, communications and data cabling overhead.

We decided to adopt the Corps of Engineers' BUILDER program for facility assessment and condition index calculations. This construction assessment tool will be the standard for use in the Department of Defense. Sequestration and official travel restrictions prohibited government personnel from performing the baseline BUILDER facility assessments. So in July 2013, we outsourced the application of the new assessment tool which takes a fresh look at our facilities and develops a more objective reset of our facility condition baseline. As of early September, over 50 of the 256 stores and central distribution facilities have been assessed. The effort will be complete in the second quarter of FY2014, in time for the bi-annual update of construction requirements. This program is critical to accurately identify and program the construction projects to address the greatest

need and ensure efficient use of limited surcharge funds, as we move to a “living within our means,” philosophy in programming construction projects in accordance with available surcharge funding.

DeCA's focus continues to be on renovation vice replacement, improving as many commissaries as possible, and making a positive impact on the shortfall. This allows DeCA to defer major investments while providing safe, well maintained facilities DeCA's customers expect and deserve. DeCA devotes over 40 percent of its facility budget to ongoing maintenance and repair. Adequate maintenance combined with renovations, or minor construction projects that replace refrigeration and air conditioning systems while addressing other needed facility repairs, extends facility life and reduces the need for major construction or facility replacement. However, store replacement and major construction projects to address facility and operational deficiencies cannot be avoided. Between fiscal years 2013 and 2018 only two or three major construction projects are planned each year. Twice as many renovation projects are planned for the same timeframe.

We have initiated the acquisition process for a third-party study of all aspects of DeCA's engineering process. The study will provide external perspective and advice with the goal of identifying areas of improvement and cost savings. The study will provide a thorough analysis of the way DeCA Engineering currently conducts business to include a comparative analysis between DeCA commissary facilities and private sector grocery stores, as well as other comparable military construction projects. Areas to be evaluated will include organizational structure, store programming, planning, design, procurement, and project delivery of new construction, addition/alteration, architectural and refrigeration

upgrade, and maintenance and repair projects. The contract is scheduled to be in place in early fiscal year 2014.

**Relevancy for the Future:** In July 2013 the Agency reorganized its Sales Directorate mirroring state of the art retail processes using modern retail analytical techniques and merchandising methods. Category Management Units under the new sales alignment, will improve the synergy of DeCA's product buying, promotional, marketing, and product placement activities based on real-time business analytics and an annual buying plan. Today's grocery industry is being shaped by consumers who, through the Internet and smart phone technology, have more information to make their shopping decisions. By realigning our category management system, we are positioning ourselves to ensure the commissary benefit and its savings remain relevant to our patrons. Through the new system, the sales directorate's traditional buyer and vendor relationships will give way to a staffing structure where category managers interact with industry. Category managers will negotiate commissary pricing and patron savings based on business metrics that affect product movement—inventory turns, promotions, in-store merchandising and planograms—that dictate optimal product exposure. We are in the process of training and certifying the employees mirroring industry best practices. This change allows the clear assignment of responsibility for category managers who will be held accountable for their performance.

The grocery industry in the United States is adopting the online ordering system prevalent in the retail sector, and DeCA is keeping pace by piloting a curbside pickup service. We're testing the concept to increase accessibility to the commissary benefit by offering our patrons the ability to order groceries online in addition to shopping

conventional brick and mortar stores. Our CLICK2GO model will allow patrons to order groceries online, select an order pickup time then pick up their order at the commissary curbside location. CLICK2GO is being tested at Fort Lee, Virginia, Offutt Air Force Base, Nebraska and soon at Travis Air Force Base, California. The one year pilot will measure patron acceptance, operational execution to ensure that online shopping will not degrade current commissary service levels, and cost to deliver the benefit at which time we will decide whether to expand the concept to other commissaries.

The Agency is also developing a mobile application for smart phones that will help patrons prepare for their shopping trip and show them the tremendous price savings the commissary offers. Initial features of the mobile application will include such things as store locations, contact and navigation details, recipe lists, ability to make a shopping list feature and listing current promotional items or specials.

Of course, the Commissary Rewards Card continues to be very popular, winning a prominent place in customer's wallets and purses around the world. The card gives customers access to digital coupons redeemable at any of the Agency's 245 stores. In the first year more than one million cards have been registered by shoppers, who have downloaded more than 12 million coupons so far. That means bigger savings for them, on top of the commissary's usual savings of more than 30 percent. I would like to take this opportunity to publicly thank our industry partners who are stepping up with great coupons on all kinds of items everyone uses every day.

We are also utilizing social media to engage customers in a 21st century medium that helps spread information about the benefit, positively promotes the brand, and communicates with customers. Social media meets the needs and expectation of younger

customers as a communication channel they use to gain insight into current trends and product recommendation.

DeCA is a key partner in the effort to reduce obesity and create sustainable healthy lifestyles through the Department's Healthy Base Initiative (HBI) and represents the single best source for healthy food options at those installations in the pilot program. DeCA is uniquely positioned to be the community classroom for nutrition, food selection, and food preparation education and demonstrations to help guide our patrons to healthier eating habits. We look forward to hosting and contributing to a variety of HBI educational and promotional programs targeting Active Duty members and their families, and vigorously support HBI as an essential contributor to recruiting, retention, and readiness.

It has been my pleasure to tell you about DeCA's accomplishments, its challenges, and its contribution to the quality of life of our military families. Even with the budget uncertainty due to sequestration, as we move into this next era DeCA is excited about its ongoing initiatives to seek innovative and efficient methods of benefit delivery. In closing, I would again like to thank the members of this Subcommittee as well as each Member of Congress for their continued support of the commissary benefit.

I will be happy to answer any questions you may have.

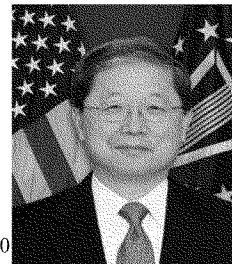


**Joseph H. Jeu**  
**Director and Chief Executive Officer of the**  
**Defense Commissary Agency**



Joseph Jeu, a member of the Senior Executive Service, is Director and Chief Executive Officer of the Defense Commissary Agency, headquartered at Fort Lee, Va., a position he has held since January 2011. He is a Tier 3 Senior Executive, one of only 45 defense leaders to be so designated. In DoD's leadership structure, a Tier 3 SES equates to the rank of a three-star flag officer. As the agency's director, Mr. Jeu oversees the operations and business processes of an agency that employs more than 18,000 at its headquarters, in its three regions and in about 250 commissaries in 13 countries, worldwide. He manages an annual budget of \$7.3 billion. Commissary annual sales totaled \$5.84 billion in fiscal 2010.

Mr. Jeu has more than 32 years of service at the federal government, Headquarters U.S. Marine Corps, Department of the Army and installation levels. Prior to his current assignment, he served as the assistant commissioner for general supplies and services for the Federal Acquisition Service's U.S. General Services Administration, where he was responsible for managing three business lines: 1) supply operations, providing \$1.5 billion in products to federal agencies worldwide, 2) acquisition operations, establishing government wide contracts of more than \$22 billion a year, and 3) property management, disposing of nearly \$1 billion annually in excess personal property.



Mr. Jeu began his 10-year run with GSA after his appointment in 2000 to the Senior Executive Service and subsequent selection as assistant commissioner for transportation and property management for the Federal Supply Service. In 1978, Mr. Jeu began his government career as a commissary officer with the U.S. Army Troop Support Agency. Six years later, he joined Headquarters Marine Corps. There he managed the Marine Corps Commissary System that included 15 commissaries and two commissary complexes. By 1987, he was promoted to head of the Marine Corps Services Branch, where he managed the Marines' garrison-level vehicle fleet, personal property and food service programs.

He is the recipient of the 2009 Presidential Rank Award for Meritorious Executive, recognizing him as a leader in the top 5 percent of the federal government's Senior Executive Service. In June 2010, President Barack Obama appointed Mr. Jeu as a member of the Committee for Purchase from People Who Are Blind or Severely Disabled. He has also received the Navy Superior Civilian Service Award in May 1987 and the Navy Distinguished Civilian Service Award in July 2001.

#### EDUCATION

1991, Harvard University, Kennedy School of Government, Senior Officials in National Security Program, Cambridge, Mass.  
 1975, Bachelor's degree in Business Administration, College of William and Mary, Williamsburg, Va.

## CAREER CHRONOLOGY

2006 - 2010, Assistant Commissioner, General Supplies and Services Portfolio, Federal Acquisition Service, U.S. General Services Administration, Arlington, Va.  
2004 - 2006, Assistant Commissioner, Office of Global Supply, Federal Supply Service, U.S. General Services Administration, Arlington, Va.  
2000 - 2004, Assistant Commissioner, Office of Transportation and Property Management, Federal Supply Service, U.S. General Services Administration, Arlington, Va.  
1987 - 2000, Head, Services Branch, Facilities and Services Division, Installations and Logistics Department, Headquarters, U.S. Marine Corps, Washington, D.C.  
1984 - 1987, Commissary Program Manager, Facilities and Services Division, Installations and Logistics Department, Headquarters, U.S. Marine Corps, Washington, D.C.  
1981 - 1984, Commissary Management Specialist, Directorate for Transportation, Energy and Troop Support, Department of the Army, Washington, D.C.  
1978 - 1981, Commissary Officer and Specialist, European Commissary Region, U.S. Army Troop Support Agency, Heidelberg and Zweibruecken, German



**NOT FOR PUBLICATION  
UNTIL RELEASED BY  
THE HOUSE ARMED  
SERVICES COMMITTEE**

**STATEMENT OF  
WILLIAM C. DILLON  
DIRECTOR, SEMPER FIT & EXCHANGE SERVICES DIVISION  
MANPOWER & RESERVE AFFAIRS  
UNITED STATES MARINE CORPS  
BEFORE THE  
SUBCOMMITTEE ON MILITARY PERSONNEL  
OF THE  
HOUSE ARMED SERVICES COMMITTEE  
ON  
MILITARY RESALE  
20 NOVEMBER 2013**

**NOT FOR PUBLICATION  
UNTIL RELEASED BY  
THE HOUSE ARMED  
SERVICES COMMITTEE**

Chairman Wilson, Ranking Member Davis, and distinguished Members of the Subcommittee, it is my privilege to report on the status of Marine Corps resale activities. I want to thank Congress, especially this Subcommittee, for your continued support.

For Marines and families, the Marine Corps Exchange (MCX) is an important part of the overall non-pay compensation package and the Marine Corps mission. Consistently ranked by Marines and families as one of their most valued benefits, MCX provides not only a value for Marines and families when they shop, but also returns dollars to the Marine Corps community. Thank you for giving us the opportunity to highlight some of our new initiatives, recent accomplishments, and efficiency practices.

#### **Keeping Faith with Marines and Families**

One of the Commandant's highest priorities is "keeping faith" with Marines and families. Our Marine Corps Exchange takes that priority to heart as we strive to provide a high quality, on-brand shopping experience for Marines, Sailors, families, and retirees. To MCX, "keeping faith" means creating a consistent experience and value for Marines and families, regardless of installation assignment.

"Keeping faith" also means supporting leadership objectives, such as the 21<sup>st</sup> Century Sailor and Marine initiative that Secretary Mabus unveiled last year. The initiative, focused on five key areas - Readiness, Physical Fitness, Safety, Inclusion, and Continuum of Service - aims to increase resiliency within the Department of the Navy. The Marine Corps Exchange continues to support this effort through a variety of programs. Our Commandant recently issued a memorandum regarding alcohol sales. It instructs all Marine Marts adjacent to barracks to remove distilled spirits. Additionally, the memo limits alcohol sales times to 8:00 AM thru 10:00 PM, and dedicated floor space to no more than 10 percent of the total retail space.

Another significant step to support 21<sup>st</sup> Century Sailor and Marine came in 2012 when MCX instituted tobacco price parity. This effort complements the initiatives that Semper Fit has taken in training and education of tobacco cessation. Additionally, MCX offers tobacco cessation items at cost for patrons as part of our value program, “Xtreme Value.” This program supports the financial readiness of Marines and their families and offers items such as diapers, formula, baby food, bread, and milk at cost. In regards to safety, MCX encourages all motorcyclists on installations to take a base motorcycle safety course by offering authorized patrons who complete the course, a 25% discount on motorcycle safety equipment.

The Marine Corps resale system is also pleased to support the Department of Defense’s new Healthy Base Initiative (HBI). The two Marine Corps pilot sites for HBI are Quantico and Twentynine Palms. The HBI is aimed at keeping Service members and their families healthy, or making them healthier, to increase readiness. MCX is focused on keeping faith with Marines, Sailors, and their families by ensuring there are healthy options available to suit their needs and we look forward to more HBI-related programing in the coming months.

“Keeping faith” with families does not end there; MCX is committed to supporting initiatives like the White House’s “Joining Forces” to employ veterans and family members, along with our vendor and industry partners. As a member of the Military Spouse Employment Partnership Program we are excited to help provide jobs to military spouses who may be worried about finding a job at their next duty station. Currently, almost 30 percent of MCX employees are military family members.

Marine Corps retail programs are not immune from fiscal challenges, but challenges bring great opportunity. On our installations, MCX provides lifestyle relevant products and services Marines and families need and desire, below market price or at cost, to support

household and financial health. This environment leads to new drivers, like transformation, being change leaders and precision in all that we do.

#### **Marine Marts and Marine Corps Exchanges**

In 2007, MCX began an aggressive reinvestment into main stores; this strategy was successful as it created a higher quality, consistent experience for Marines and families. We are looking to duplicate that success with a similar strategy in Marine Marts and are currently executing our Marine Mart Capitalization Master Plan. The plan identified over 70 Marine Marts and prioritized those to build new, expand, or renovate. MCX customers on average visit the main store once per week, but visit Marine Marts almost daily, some customers visit as many as three times a day and often consume one of their meals from the food and product offerings; in 2012, there were over 11.7 million Marine Mart transactions. As Marine Marts are an important part of the Marine Corps community, we are focused on offering products and assortments meaningful to the Marine or their spouse visiting their neighborhood Marine Mart for a quick and healthy grab and go.

MCX aims to stay relevant to customers in all that we do. One way to ensure relevancy is through product diversity- we carry a wide array of brands and price points to appeal to each customer and to better meet their needs. We're especially proud of our high quality MCX private label clothing brand, 1775. The 1775 style is fashionable and priced affordably. Beyond our assortment of both branded and private label clothing lines, we offer a variety of products from cosmetics to electronics to toys to home furnishings to serve as a "one stop shop" for Marines and families. Our Xtreme Value program offers the brands and products important to our customers at the best price possible. To date, we have reduced the price on over 60 everyday

items, such as razors, detergent, deodorant, toothpaste, etc., and continue to review our inventory for other opportunities.

Marine Corps Exchanges are conveniently located at the nucleus of the installation community but also offer online shopping which allows for additional products. The Exchange On-Line Store is a cooperative effort with our Sister Services which benefits MCX shoppers in numerous ways: provides a wider variety of products; allows us to stay competitive in the ever-growing virtual market place; and earns a dividend on Marine affiliated purchases.

In 2012, our annual Customer Satisfaction Index survey indicated MCX patrons' satisfaction increased two points over the previous year. Patrons awarded MCX a customer satisfaction score of 80, indicating a high level of satisfaction with our MCX. We saw increases in areas on which we have strategically been focused, like merchandise assortment and availability. The 2012 results of our market basket survey, which we conduct annually as a cooperative effort with the Navy Exchange and Army and Air Force Exchange Service, showed an average savings of over 24 percent all while maintaining a consistent gross margin.

Marines, Sailors, and their families have come to expect high quality service, a wide selection of products, and great savings from MCX and we regularly meet or exceed those expectations. We also stand out among other retailers and, in a slow economy, are consistently increasing proceeds over each previous year. Success is measured not just by revenue, but also by the value we provide to our Marine Corps community. When shopping at MCX, Marines and families know that dividends are returned to their community, creating a stronger Marine Corps.

**Gaining Efficiencies**

In this resource constrained fiscal environment, MCX seeks to avoid unnecessary costs by executing programs in the most efficient way and our MCX-generated dividend has become even more important. We are now expanding our efficiency efforts to include not just the branded look of the MCX, but also the back-of-house operations. We are transforming our supply chain, specifically how we flow merchandise, and technology capabilities to support best in class processes to reduce redundancies and become more efficient. For example, in 2011, MCX partnered with a third party logistics company to streamline transportation logistics, this resulted in decreased transportation and inventory management costs and more consistent product delivery times. Despite increased transportation prices and weather delays in FY12, MCX met its transit goal of 8 days or less in 11 months of the year and reduced freight transportation costs by about 25 percent, or \$2.5 million. By establishing relationships with logistics and consulting agencies, MCX gained significant efficiencies, while growing topline sales and improving margin dollars to support Marines and families.

Along with our Sister Services, the MCX also participates in the Cooperative Efforts Board (CEB). The CEB focuses on indirect procurement and supply chain activities and proactively looks at all areas of the business to find cooperative opportunities. One example of cooperative efforts resulting in decreased costs is the use of joint contracts on indirect procurement; in 2012 the exchanges saved a total of an estimated \$10.7 million by leveraging our spending to negotiate more favorable contract terms and prices. Additionally, the exchanges are cutting shipping costs in a significant effort to collaborate on distribution when possible, through utilizing other exchanges' distribution centers and sharing shipping containers to

overseas locations. We constantly seek efficiencies across all business and support activities; it is a part of our daily business practices.

#### **MCX Financial Results**

Total MCX sales in Fiscal Year 2012 were \$1038.3 million. MCX profits were \$75.0 million and the dividend for MWR was \$49.6 million. By comparison, in Fiscal Year 2011, total MCX sales were \$997.8 million, profits were \$69.8 million, and dividend for MWR was \$47.5 million.

#### **Deployed Support**

Deployed support is one of the most important services we provide. Our mission is to support the Combatant Commander with MCX Warfighter Mobile support and MWR in theater. Within resale activities, we have ongoing missions in Afghanistan, supported in large part by Army and Air Force Exchange Service as they provide product and infrastructure. These operations include a Direct Operation Exchanges Tactical at Camp Leatherneck, one Tactical Field Exchange at Living Support Area 13, and numerous Warfighter Express Services Teams operating out of Camp Leatherneck. We also have two MCX Mobile Tactical Field Exchange (MTFE) Trailers which can serve as fully functional retail stores. Equipped with a diesel generator, the MTFE can operate on site for up to 72 hours and can provide indefinite operations when accompanied with a resupply container and connected to municipal power. The trailer can be used to support tactical field exercises, disaster relief, and special events requiring retail support. The MTFEs are road-ready and are based at Camp Pendleton and Camp Lejeune.

#### **Conclusion**

Our Marine Corps Exchange is focused on taking care of Marines, Sailors, and their families. From providing high quality goods at a great value to reinvesting dollars in the Marine

Corps community, we strive to “keep faith.” We will continue our aggressive pursuit of efficiency measures and a robust transformation strategy to protect this valued benefit. On behalf of Marines and their families, we want to thank you for your oversight and continuous support. Thank you for the opportunity to discuss these important issues.

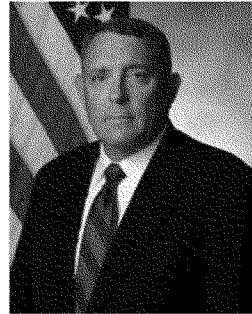




**William C. Dillon**  
**Director, Semper Fit and Exchange Services**

---

William C. Dillon serves as Director of the Semper Fit and Exchange Services Division for the United States Marine Corps. He previously served as the organization's Chief Financial Officer and has more than 20 years of experience in senior financial management positions with regional and national retail chains and in public accounting. He attended Villanova University receiving a BS in Accounting and DePaul University earning his MBA in Finance. He served as a Marine Corps Officer from 1969 to 1972. His Military Occupational Specialty was 0802 serving in Mike Battery 4<sup>th</sup> Battalion 10th Marines and Kilo Battery 4<sup>th</sup> Battalion 12<sup>th</sup> Marines.



Mr. Dillon is responsible for programs such as the Marine Corps Exchange, Food and Hospitality Operations, Semper Fit and Recreation, and common Marine Corps Community Services support functions such as nonappropriated fund contracting, finance, human resources, information technology, and procurement.

**STATEMENT BY:**

**MR. PATRICK NIXON**

**PRESIDENT – AMERICAN LOGISTICS ASSOCIATION**

**BEFORE THE SUBCOMMITTEE ON PERSONNEL**

**COMMITTEE ON ARMED SERVICES**

**UNITED STATES HOUSE OF REPRESENTATIVES**

**1st SESSION 113<sup>TH</sup> CONGRESS**

**November 20, 2013**

**NOT FOR PUBLICATION  
UNTIL RELEASED BY  
HOUSE ARMED SERVICES COMMITTEE**

To the Honorable Chairman and Distinguished Members of the Subcommittee:

The American Logistics Association (ALA) is pleased and honored to appear before you today. For 90 years ALA has worked to promote, protect and enhance the military resale and quality of life benefits on behalf of our members and the military community.

Under the leadership of Mr. Ed Brunot, Executive Vice President of SpartanNash, President of Military Distributors of Virginia and Chairman of the Board, the ALA is proud to represent 250 of America's leading manufacturers, numerous brokers and distributors, service companies, media outlets and more than 1400 individual members who are actively engaged in providing goods and services to our resale customers, MWR activities for our military, including Coast Guard, and Veterans.

Our growing affinity organization, known as The Coalition to Save Our Military Shopping Benefits, represents nearly 2 million service members, veterans, and their families; and is comprised of some of the largest, oldest, and most trusted military and veterans' service organizations in the country, as well as those representing our newest veterans and military family members.

I first want to thank you Mr. Chairman, Ranking Member Davis, all of the members of the Personnel Subcommittee and the full Armed Services Committee for your consistent and unwavering support of our military and their families. You have sounded the clarion call on the need to protect the full range of benefits provided to our military people:

They earned it.

They deserve it.

And, they value and appreciate it.

We are honored to appear before you along with distinguished DoD leaders, our business partners—the leaders of the commissary, exchange, and morale, welfare and recreation programs of the Department of Defense, and our colleagues from the Armed Forces Marketing Council.

We all share a common purpose and commitment to work together to strengthen the foundation of this program so that it can endure any challenge. This partnership represents the best that America offers and is a shining example of what can be accomplished when Government and American business get together for a common purpose.

We will continue to remind leaders of the four-pronged value of these benefits:

- 1) Reciprocating for the dedicated service of millions of military personnel and their families;
- 2) Supporting the military mission by providing a cost-effective benefit with a high return in retention of quality people;
- 3) Providing a high return on investment for resources spent providing these benefits; and,
- 4) Providing a powerful engine to revitalize the American economy and provide jobs for American citizens including military family members.

It is a system that works. It provides tremendous value to patrons and taxpayers alike and demonstrates what can be done when the best of government comes together with the best of the private sector to provide for the best people in the world—the United States military and their families.

The sun never sets on the military's resale system. Every day from the mountains of Afghanistan to embassies to ships sailing across the globe to the Demilitarized Zone in

Korea to the Horn of Africa and hundreds of staging and training bases, tens of thousands of dedicated employees provide for the daily needs of millions of our best citizens who spend nearly \$50 million of their hard-earned dollars each and every day in their stores—stores they have built—stores where their friends and neighbors and colleagues work. It is a living, breathing, commerce ecosystem that has evolved and thrived with the support of this Committee and other leaders over the past 150 years. ..a commerce engine that gives back far more than it receives and annually plows hundreds of millions back to the very communities they serves. And our industry is proud to be a part of this noble enterprise. I hope my testimony will give you a glimpse of just how much this system means to our Nation and our military and security structure.

We are working with the Administration to demonstrate how these programs support their National economic and military family support objectives to include hiring Veterans and military spouses, the First Lady's child nutrition and military family support, the DoD's Healthy Base Initiative efforts, and developing and articulating already existing industry-agency partnership programs that support these objectives.

ALA member companies have a huge stake in the well being and viability of the exchange and commissary system. For commissaries, we represent 90 percent of the supply chain all the way from manufacture to distribution to stocking shelves in the stores. Our presence in the supply chain for the exchanges is substantial as well. And, we provide the system with in excess of \$500 million in annual in-kind and direct support.

We are grateful to you and members of the Committee for fully funding appropriations for commissaries and exchanges in the fiscal year 2013 Defense Authorization Bill. While this support has been constant for as long as we can remember, we don't take it for granted. We know the hard choices and trade-offs that you have to make, and we know that these choices aren't coming any easier.

And, when the call has to be made, you have always sided with the recognition that these benefits are a good deal for the taxpayer, a good deal for the American people, and a great deal for the patrons.

President Obama said it best at Camp Pendleton this past August when commissaries were closed due to the furloughs, he said:

*“...the commissary your families rely on closed a day a week. We can do better than that. That’s not how a great nation should be treating its military and military families.”*

The President recognizes the value of commissaries but it appears that some in his Administration haven’t gotten the memo. As we sit here today, there are budget scenarios working that would cut anywhere from one-third to two-thirds of the commissary budget.

Mr. Chairman—we don’t operate in a bubble. We are sensitive to the challenges that the Department of Defense is facing and the tough choices that have been forced on the Pentagon by unprecedented reductions in the trajectory of DoD spending.

We know that resale programs have to share in the mission of marshaling these ever-limited Defense resources to meet threats and support the National Military Strategy. We know that resale programs have to step forward and economize along with the rest of the DoD structure to meet major fiscal challenges including the Budget Control Act sequester. We, along with a multitude of organizations have been active in urging both the Executive and Legislative Branches to end the impasse over spending and lift the sequester.

Commissaries have shared in the across the board reductions of the sequester and, along with other agencies, have taken their share of the cuts. But, some in the Department of Defense have other ideas. They want to cut commissaries way out of proportion to other defense programs.

And, despite all of the challenges, we can report that the system is strong—providing high value and savings to patrons, high sales, and increased exchange earnings flowing to re-capitalization and vital community support programs. We also are encouraged by the promise of digital initiatives and e-commerce that promise to bring even more value to a wider base of deserving patrons.

Mr. Chairman, the fact is that commissaries have not only shared in the sequester and other reductions over the past couple of years, they have consistently sacrificed at the budget altar. Consider for a moment:

- Commissaries are the only benefit that shrinks correspondingly with base closures and over 170 of the 420 stores have since the fall of the wall.
- The reason we have a consolidated Defense Commissary Agency is that DoD, in 1990, recommended it to gain efficiency—and it has. A total operating cost savings of \$702 million has been realized from 1992 through 2012.
- In 1996, Congress and the Administration agreed to outsource much of the supply chain to the private sector, returning hundreds of millions to the Department in inventory stock fund savings.
- And the hits just keep on coming. For the past successive 10 years, the dedicated folks at DeCA have stepped up and delivered on a wide range of efficiency initiatives, cutting costs wherever they can be found in order to maintain wide patron savings margins at a reduced cost.
- DeCA's operating efficiencies and initiatives such as the transfer of overseas distribution and produce procurement functions from Defense Logistics Agency (DLA); frequent delivery systems and direct store delivery; labor savings associated with a central meat processing plant in Europe; second destination transportation reductions; the standardization of processes; case ready meat; delivery ticket invoicing; and resale

ordering agreements produced cumulative savings of \$152M.

- Probably the biggest aspect of vendor support is in the distribution system. In the continental United States, DeCA uses commercial distributors. Before consolidation the individual Services used different systems, including extensive DLA operations. As a (DISA), and the Defense Transportation System produced savings of \$91.1M.
- Workforce restructuring efforts such as A-76, in-sourcing, store level most efficient organization (MEO), store associates job classification-workforce flexibility and business process reengineering of the resale accounting function saved \$76.1M.
- As a result of the Secretary of Defense savings initiative in FY 2011, DeCA reduced \$10M and 89 FTEs in savings, all above store level. The highlight of this effort was the reorganization of three store regions into one Store Operations Group, further reducing overhead management structure. In addition to the efforts above, BRAC and other store closures over the years have resulted in reductions totaling \$200.6M and 4,181 FTEs. Adapting the common commercial practice of Delivery Ticket Invoicing to reduce bill paying costs and working with DFAS.
- The consolidation of the four Services commissary systems realized an immediate savings of \$50M in FY 1992.
- Military billet to civilian employee conversions have realized \$36.6M in savings.
- Reorganization efforts such as DeCA Region restructuring from seven (7) regions to three (3), consolidating support functions at HQ, and reorganizing HQ staff resulted in savings of \$286.7M and 822 FTEs.



- Had these cost reductions not taken place, the trajectory for the commissary costs would have taken it over \$2 billion a year.
- It is the only benefit in DoD that has been reduced in costs in real terms.
- And, they are accountable, having a clean audit for 13 years running.

And, you will hear today from our resale partners about all of the things they are doing to continue to provide the best for the best in this constrained environment. The list of economies, innovation and pro-active efforts to provide for our military folks is long and impressive—and we are proud to be part of it. ALA has stepped forward with our resale partners to squeeze all possible efficiencies out of the supply chain. We have established a Supply Chain task Force headed up by David Sisk of Proctor and Gamble and have engaged the commissary and exchange agencies to explore improved sourcing and distribution methods from manufacture to the shelf.

But I want to get right to the point: We are alarmed by what we have been hearing and seeing in recent months. Misinformed budget cutters are refusing to acknowledge the contributions made by these programs and the financial sacrifices that have been made over the years.

Keep in mind, commissaries and exchanges are businesses—efficiency is built into their business DNA. Every decision from the highest-level employee to the lowest is aimed at cutting costs and enhancing the return to the patron.

These programs were efficient when efficiency wasn't cool.

These programs have a history of cost cutting and accountability unmatched by any organization in DoD and Government at large, and by most private sector companies.

This is a model to emulate, not decimate. It's part of the solution to the budget problem, not the source of the budget problem. We challenge any program in the

Department of Defense to come forward and show if they can deliver more bang for the buck than these programs.

Instead of thinking of ways to dismantle the system, Pentagon leaders would be well advised to think of ways to replicate the practices and principles of these programs onto their other programs. Simply put, if the DoD didn't have this model for delivery of a program, they'd want to create it.

We saw this budget battle coming. We knew that numbers would matter. We recognized that we could not count on mere compassion for our military families and the vital mission support nature of these programs to prevail on its own. That's why we commissioned and completed an economic review of the system. When we commissioned the report, we set out to show the high return to the DoD and the Nation that these programs have for the resources provided them---and we expected it to be substantial. But we had no idea how substantial.

But some folks are determined not to let the facts get in the way of their suppositions. They conveniently discount these contributions to realize some short-term gains in outlays for other purposes, not realizing that they are eating their seed corn—not realizing that they are tampering with a business ecology that has sustained the military community for well over 150 years.

Please let me share with you some of the findings with specific regard to commissaries:

- Represent a partnership between the public and private sector, taking advantage of a private sector supply chain that contributes nearly \$500 million a year in discounts and services.
- Represent a partnership between the beneficiaries and the DoD with these beneficiaries already contribute to and offset nearly 20 percent of the operating costs.

- Is a cherished and well-used benefit with 90 percent of active duty families using it last year and over 98 million customer transactions.
- Large operations in the United States anchor and indirectly underwrite operations in remote and overseas areas—equalizing the benefit no matter where our people serve.
- Are a flexible benefit that expands and contracts with the size of the force structure with nearly 170 of the stores closed corresponding with successive rounds of BRAC and force realignment over the years.
- Have a declining budget, with funding for the benefit remaining stable and dropping in real terms during the Defense budget ramp-up and even when the number of eligible beneficiaries increased, taking hundreds of millions in annual costs out of the system through closures and efficiencies.
- Allow the Department to economize on cost-of-living allowances and personnel and operating costs in other areas such as direct pay and transportation.

With regard to the commissary and exchange systems the report findings are:

- \$4.5 billion in annual savings to military patrons.
- Reduced cost of living allowance payments by over \$738 million per year.
- Promotes the sale of nearly \$3.7 billion annually in U.S. products overseas.
- Provides \$330 million in vital community support funding for military installations.
- The system makes a major contribution to National Security, supporting deployed forces, often in forward combat areas valued at \$117 million annually.
- Is one of the most efficient organizations in Government with over \$700 million in annual efficiencies.
- This includes \$10.51 billion in economic benefit to military service members and families for a \$5.97 return for every dollar of appropriations used.

- When direct cash contributions by the system to the government are measured against the appropriations spent, the system yields \$373 million per year in proceeds to the government.
- Military personnel are shareholders in their own resale programs. A portion of their paid transaction is allocated to recapitalization, saving the taxpayer money and building military family equity. Over the past 20 years, this investment in facility and other capital investments have amounted to \$12.5 billion. The total amount of shareholder equity in the system is estimated at \$12 billion.
- Costs for these programs have been kept constant or dropped in real terms in the past ten years while costs of other DoD programs have doubled and even tripled. Yet, commissaries and exchanges rank near the top for reasons military personnel stay in the service.
- This system produces \$10.97 billion in annual economic benefit to the Department of Defense for the \$1.757 billion provided in taxpayer support, a \$6.24 return for every \$1.00 of appropriations used.
- Military families benefit from the system with a \$10.51 billion in annual economic benefit to military service members and families for a \$5.97 return for every dollar of appropriations used.
- The system makes a major contribution to National Security, supporting deployed forces, often in forward combat areas valued at \$117 million annually.
- Provides employment for tens of thousands of military family members, making a major contribution to household income.
- Greatly reduces training costs by helping keep good people in the Service.
- Reduces telecommunications costs to military personnel and DoD by \$250 million annually.
- Provides nearly \$600 million in Federal tax income to the Treasury from over \$4.6 billion in salaries.
- Greatly reduces training costs for DoD by helping to keep good people in the service.

- The resale system is the only benefit provided by DoD to its personnel and their families where costs to the government decline the more it is used.
- Is a powerful engine behind the U.S. economy, providing nearly \$18 billion in gross domestic product.
- Ranks at the top in accountability to patrons and the taxpayers with clean audits and financial statements.
- Is the only benefit provided by DoD to its personnel and their families where costs to the government decline on a per unit basis the more it is used.
- Employs tens of thousands of military family members, contributing to military household income.
- Creates thousands of American jobs and markets billions of dollars worth of American- made product overseas.
- Is the leading employer in the nation for Veterans.
- Supports a multitude of benevolent causes and is a leader in the nation in small business usage and employing disadvantaged, including the blind and disabled.
- Is a leader in socio-economic and green initiatives in the government

Mr. Chairman, we are not afraid of analysis. We are afraid of the lack of analysis. We are afraid that some will draw a straight line through the budget without carefully considering the dimensions and implications of what they are doing.

Mr. Chairman and members of the Committee—keep in mind that as big a contribution that these programs make and the long and proud tradition of service, they are perhaps the most fragile and vulnerable of all benefits. This is because of the way they are funded. They are at ground zero of the fast spending, outlay rich operation and maintenance funds that are most vulnerable to reductions. The commissary appropriation is not an entitlement in the sense that health care, retirement, pay and other benefits that are protected by the law. While there are rules for administering the programs in Title

10, there is no floor on funding and while the law says that goods must be sold at cost, DoD can de-fund the programs at any time.

Also vulnerable are nonappropriated funds. This committee has a long-standing tradition of safeguarding the nonappropriated fund trust and worked to establish boundaries over the use of these funds. These funds are generated from the earnings of MWR and exchange programs. Essentially, military folks tax themselves to provide funds for the modernization of their own facilities. As pressure builds on the budget, there is a great temptation to use these funds for purposes other than why they were generated to backfill shortfalls in other base operations areas. Any inappropriate diversion of these funds is a disservice to the troops and, in turn, exerts great pressure on exchanges to provide dividends and reduce their capital expenditures. We urge the committee to be vigilant and continue its active oversight of the sources and application of these funds.

Let me say a few words about the DeCA work force. We are awed and amazed by their resilience and dedication. During the past year the warmth and compassion that they demonstrate for the patrons they serve has been met with an arctic blast: hiring freezes, travel freezes and pay freezes. They have been furloughed, criticized, and burdened by more work and less resources. Yet, they have consistently picked themselves up, dusted themselves off, and have rolled up their sleeves and gone to work making sure that our troops and their families do not go wanting. We are proud to be associated with them. They are the faces behind the bases. They are public servants in the best sense of the word.

While exchange NAF employees have not felt the drastic fits and starts that their DeCA civil service colleagues have, they nonetheless have stepped up and gone to work each day to answer the call.

This past August, when the sequester forced furloughs one day a week and this past October when commissaries closed for five days, we heard from service members, veterans, and their families. Allow me to share with you with some of their comments:

- *“As a military member I use the commissary every time I go shopping. I have a wife and a child and we are expecting another. The commissary has helped us save money over the years by providing goods tax free. These are rights that we deserve.”*
- *“The commissary is a huge benefit for retirees and active duty alike. The widows/widowers are only receiving a portion of the military retirement check which does not go very far. The commissary makes a huge difference in these lives. Overall savings of 30-40 percent were just verified during the shutdown when stores were forced to close. I purchased two bags of essentials at a local Wal-Mart and was suffered serious sticker shock.”*
- *Please don't take away our commissaries!!! We have been in the Navy for 5 years, and the day my husband went to boot camp, I quit working. The only thing that has allowed for this is the prices at the commissary! A lot of us are on one income - especially those of us with smaller children at home. Daycare prices are high, making it less cost efficient for us to work. Having one parent gone frequently, the kids, and the military spouse need someone at home they can count on to be there whenever needed. If you take away the commissaries, a lot of military members will lose that full time support and moral will suffer with that loss...”*
- *“All my husband ever wanted to do is to fight for his country. But he got sick and was only able to serve 8 1/2yrs in the Army. We went through difficult times. Being able to shop at the PX and Commissary helps financially. I have been working on Post for the last 8 yrs. So many employees including me would lose their jobs.”*

- *The commissary has always been an important benefit to my family. I have served as both an active and National Guard soldier in times when money was short, salary was tight and the commissary was the difference maker for the family in the decision to continue to serve. It has often been the one positive thing to benefit the family in return for the hardships and absences they dealt with as a result of serve."*
- *"Commissaries are one of the most important benefits that military members earn. After retirement from active service, the commissary was the one benefit that continued to provide for our family. To take away this valuable benefit from our service members and retirees would be a slap in the face to them. It is a benefit that we have earned and we want to keep."*
- *"I served 28+ years before being medically retired. When I decided to make the US Army my career, I was promised free, life- long medical care and life-long access to the PX and commissary. I earned those promises and fully expect them to be honored."*
- *"I retired after 20 years of service. I am not able to work a full 40-hour workweek at this time due to my special needs daughter and I need to be here for her after school. I cannot afford to pay someone to be here for her. I am fortunate to even have a job that will work with my hours that I can work. My budget is tight as I am a single parent of three and the commissary helps me to feed my family."*

In addition to these comments, during the government shutdown, military families demonstrated the importance of the commissary benefit through their actions. Before commissaries closed stateside on October 2<sup>nd</sup>, military families rushed to their local commissaries to stock up on groceries. Total sales on October 1<sup>st</sup> were a staggering \$30.6 million – more than double the normal sales volume, and the highest sales day since 2000. Stateside stores accounted for \$26.3 million or 85 percent of the total sales. These numbers alone demonstrate how important the commissary benefit is to military families wherever they are stationed.



We want to congratulate Congress on establishing the Military Retirement Modernization and Compensation Commission. We believe that the commission will recognize the great contribution that these programs make to military families and their value in relation to other Compensation items. The Commission needs to do its work, and the Department shouldn't make decisions that cannot be reversed in the frenzy to find savings.

Over the past three years there have been several assaults on the commissary benefit. These assaults have at their core what we believe to be a dangerously flawed report by the Congressional Budget Office that is fraught with flawed assumptions that – on the surface – could lead some to believe that savings can occur without a cost.

We unequivocally challenge this report, its assumptions, and findings. There is a cost -- a major cost -- to their suggestions. And, not only are their assumptions flawed, they conveniently ignore a multitude of factors that clearly demonstrate that unraveling this system and upsetting the equilibrium will have a devastating reverberating effect on the very core of the military community.

When you examine the other factors, the report found, the CBO report recommendations actually cost the Government and the Nation. The CBO estimated savings of \$9.1 billion over ten years. Our analysis shows that the costs to the Nation for implementing the CBO analysis would be \$69 billion over ten years and the cost to DoD would be \$41 billion a year. When the cost of the \$660 million grocery allowance is added, the cost to the Nation rises to \$76.47 billion per year.

Item: The military resale benefit is the only benefit that increases its value to the Department of Defense the more it is used. The infrastructure exists. The taxpayers and patrons have sunk nearly \$40 billion into this existing infrastructure. Every family that uses these benefits saves \$7,000 a year by using the benefits. That's \$7,000 that goes directly to the bottom line of military households. It's real money in their pockets. It's a new car. It's a college education. It's money for furniture or a house payment.

Collectively, the savings by shopping at these stores throws nearly \$4 billion a year to the bottom line of military family households. For each 100,000 additional families that use the benefit, DoD gains in compensation value \$700 million.

In the aggregate and on the surface, the CBO report may have some appeal. But dissect its component part and one can begin to see how dangerous it is.

Item: They say that you can convert the current commissary workforce to nonappropriated fund employees. Yet they do not take into account the carriers of these valued employees and nowhere do they quantify or substantiate how these savings would materialize.

Item: They say that consolidation would eliminate duplicative functions. Yet they ignore a wide body of evidence to the contrary that show that savings from consolidation are illusory.

Item: CBO says that budget authority to operate the combined system would drop by \$2 billion. Hard to believe, especially when you consider that they entire appropriation is less than \$1.6 billion.

Item: The CBO formula calls for a third of the \$2 billion to be returned to active-duty service members in the form of a tax-free grocery allowance. Where would this grocery allowance be spent—at higher cost grocery outlets, thereby negating the benefit of doing it in the first place?

Item: CBO would have patrons paying 7 percent more for their groceries and other merchandise. This would effectively decrease patronage and reduce the economies-of-scale of the entire enterprise with a residual additional cost increase.

Item: CBO says that active duty members and families would pay about \$400 more per year, offset by the grocery allowance. We believe the cost would be far higher and would not approach being offset by the allowance.

Item: CBO says that families would benefit from longer store hours—difficult to understand when funding for store hours would be sharply curtailed.

Item: The grocery allowance would be provided only to active-duty enlisted personnel. This completely disenfranchises all officers, all retired personnel, all National

Guard and Reserve families, all Medal-of-Honor Recipients, all disabled Veterans, and all Surviving families.

Item: They say that the system would be better able to compete with civilian alternatives. How is this possible when prices would be higher?

And, although some would like to make this strictly a numbers game, it's not:

- Our military is coming off fighting two wars and service men and women and their families are under great stress.
- There has been a near 70 percent increase in food stamp redemption in these stores as some military families struggle to make ends meet.
- Military compensation is being squeezed in other areas including pay and health care.
- This system provides much needed care for those deployed and care for those left at home.
- A multitude of benevolent causes are supported through this system including USO, Fisher House, military families, scholarships, Veterans jobs, and wounded warriors.
- The system fosters much needed employment of Veterans, wounded warriors, and military family members, adding substantially to the financial well-being of our military community.

And, let's look at the National Security Case:

- The military resale system is ingrained in OSD fabric and is not inextricable without a major cost.

- It adapts to force structure and basing changes to the military at a cost to the capital investments that the patrons have made.
- It underpins transportation system, aiding in economies of scale for the shipment of all DoD products to overseas locations.
- The system helps military living off base to maintain ties with installations.
- The resale system support deployed forces, often in forward combat areas with over 95 sites in theater. Many workers in the resale system have deployed in harms way. This includes tactical exchanges and ship stores ashore and afloat for our forward deployed Navy folks.
- The system has to be all things to all people worldwide 24-7.
- The resale benefit helps keep good people in the service aiding in retention—no small contribution considering that it costs \$150,000 to \$200,000 to train a troop and over \$1 million for pilots, doctors, specialists.

In order to protect these critical earned benefits, the ALA established *The Coalition to Save Our Military Shopping Benefits*. The Coalition works to ensure service members, veterans, and their families have a voice in shaping policies that impact our nation's ability to sustain a healthy and vibrant military resale system. This effort is led and orchestrated by Candace Wheeler, a well-known military family advocate. Our growing number of Valued Associate members include: National Military Family Association, Military Officers Association of America, Iraq and Afghanistan Veterans of America, National Guard Association of the United States, Reserve Officers Association, The Retired Enlisted Association, Armed Forces Marketing Council, National Industries for the Blind, and many others. The ALA Board is grateful for their support and advocacy. The Coalition now represents nearly 2 million service members, veterans, and their families but every military family member, veteran, and concerned citizen is our

partner in this important undertaking. We have established a Coalition website – [www.saveourbenefit.org](http://www.saveourbenefit.org) – that promotes the use of the benefit and provides information on any threats to the system.

A major initiative of the Association in the past year has been the commitment by ALA and its member companies to hire 25,000 Veterans and family members. On October 21, 2012, The President and Mrs. Obama traveled to Langley Air Force Base to announce one of the first major initiatives to hire Veterans and military family members. ALA committed to hiring 25,000 within two years. I am happy to report that we met and exceeded this objective and we are committed to hiring more.

And, Mrs. Obama said that the ALA commitment was “the largest coordinated effort by the private sector to hire Veterans and family members we’ve seen in years, maybe ever.” We set up a website –[www.alajoiningforces.org](http://www.alajoiningforces.org) -- that provides resources for hiring Veterans and family members including tax breaks and incentives passed by the Congress in the Three Percent Withholding Repeal and Job Creation Act of 2011.

Here again, we are grateful for all of the companies and organizations that have stepped forward to make this happen. This includes the volunteer work of Ms. Robbie Rich who is working with the ALA and member companies to help Veterans and family members get good paying jobs in this industry. This was a significant development for the ALA as it represented the first time that the Chief Executive acknowledged the contributions to the Nation of the military resale agency and industry partners.

#### **Legislative issues**

We appreciate and support the extension of the authority to provide commissary and exchange benefits after separation from service. This authority will provide much needed economic assistance for military people at a very vulnerable time.

We believe that the Congress should resist efforts to control product availability for military personnel that is out of sync with that which is available in the civilian

marketplace. Military personnel should have access to the same products that are available to the citizens they defend.

**We urge you to:**

- Continue your support for funding of commissaries, shipment of American products to our overseas bases, and full support for all authorized categories of morale, welfare and recreation programs.
- Encourage the Treasury Department to exercise the authority provided by the Congress in accessing the Federal Financing Bank to help finance exchange programs.
- Support efforts for an affordable and expedient method for industry partners to have access to military bases. Our objective is one affordable card that is accepted at all bases. Continue your support for authorization for appropriations for commissary, exchange and other nonappropriated fund construction at bases that are expanding as a result of global re-stationing and BRAC.
- Support efforts by the exchanges and commissaries to reach out to National Guard and reservists who live in communities where they cannot readily access on-base services.
- Support expanding the eligibility to use these stores to more Veterans. We need to capitalize on the billions of dollars in investment that taxpayers and military people have made over the years to provide a helping hand to those who now need it most. We urge you to move to provide transition benefits to a larger group of Veterans and service members returning from multiple overseas deployments, and suggest that this benefit be provided to all former military and their families for at least three years. Congress has directed a study of expanding the benefit to include more disabled veterans. ALA supports this expansion.

- Remove any restrictions on products and services that may be offered to authorize patrons.
- Ensure that any legislation that is passed to benefit military MWR and resale programs extend to the Coast Guard and the Department of Veterans Affairs where appropriate. Support supply chain initiatives that drive the lowest cost of goods for the military resale system while recognizing the importance of the vendor/broker/distributor support network that is unique to the military resale system.
- Ensure that positive policy and legislative changes are extended to the Veterans Canteen Service and the Coast Guard exchange and MWR programs.

We know that you share many of our concerns for these programs and we look forward to working with the Subcommittee toward ensuring that these benefits remain viable for our deserving beneficiaries.



**Patrick B. Nixon**  
**President, American Logistics Association**

Patrick B. Nixon is President of the **American Logistics Association (ALA)**, headquartered in Washington DC. The ALA is a voluntary, nonprofit organization of manufacturers, manufacturer's representatives, brokers, distributors, publishers, and other companies that sell or provide products and services to the military resale systems and MWR/Services. At ALA, we use the term "military resale systems" as a broad term that includes all military exchanges and commissaries, Department of State stores, Veterans Canteen Services, as well as all of the armed forces' Morale, Welfare, and Recreation (MWR) activities that involve a product or service. The ALA membership includes over 250 of America's leading manufacturers, nearly 60 brokers and distributors, service companies, media outlets and more than 1400 individual members. Mr. Nixon is responsible for articulating the association's positions on issues and programs to the membership, the Congress, DoD and military resale partners. He develops the legislative focus for the association and serves as a registered lobbyist. Prior to assuming this position, Mr. Nixon completed a successful career with the federal government rising through the ranks of civil service to the Senior Executive Service.

Mr. Nixon served as the Chief Executive Officer (CEO) of the Defense Commissary Agency from 2001 until his retirement in 2007 and served in the joint role as the Director and CEO from August 2004 until he departed in November 2007.

**EDUCATION**

1972, Bachelor of Arts degree in philosophy and political theory (cum laude), University of Maryland, College Park, Md.  
 1978, juris doctor degree, University of Baltimore School of Law, Md.  
 Graduate studies, European Institute of Public Administration, Brussels, Belgium, and Harvard's John F. Kennedy School of Government, Cambridge, Mass.  
 Advanced studies certificates in corporate governance, Tulane University School of Law and Freeman School of Business, New Orleans, La.  
 Executive study sessions, Brookings Institute, Washington, D.C.

**CAREER CHRONOLOGY**

1962-1982 Progressive Management positions with A&P Food Stores

1966-1969 Enlisted Marine, 1st MARDIV RVN

1982-1988 U.S. Army Troop Support Agency

1988-1991 Program Manager, HQ USMC

1991-2001 Leadership positions with DeCA

2001-2007 CEO, DeCA

2004-2007 Director and CEO, DeCA

**AWARDS AND HONORS**

Presidential Rank Award for Meritorious Senior Executives and Professionals  
 Secretary of Defense Medal for Meritorious Civilian Service  
 Senior Executive Service Exceptional Performance Award

National Military Families Association's Anna Chenault Award for Exceptional Support to the Military Family  
 Defense Commissary Agency's Distinguished Civilian Service Award  
 DeCA Meritorious Civilian Service Award (4 Awards)  
 U.S. Navy Meritorious Civilian Service Award  
 U.S. Army Commanders Award for Civilian Service  
 Navy Achievement Medal with "V" device for valor  
 Vietnamese Cross of Gallantry



**DISCLOSURE FORM FOR WITNESSES  
CONCERNING FEDERAL CONTRACT AND GRANT INFORMATION**

**INSTRUCTION TO WITNESSES:** Rule 11, clause 2(g)(5), of the Rules of the U.S. House of Representatives for the 113<sup>th</sup> Congress requires nongovernmental witnesses appearing before House committees to include in their written statements a curriculum vitae and a disclosure of the amount and source of any federal contracts or grants (including subcontracts and subgrants) received during the current and two previous fiscal years either by the witness or by an entity represented by the witness. This form is intended to assist witnesses appearing before the House Committee on Armed Services in complying with the House rule. Please note that a copy of these statements, with appropriate redactions to protect the witness's personal privacy (including home address and phone number) will be made publicly available in electronic form not later than one day after the witness's appearance before the committee.

**Witness name:** Patrick B. Nixon

**Capacity in which appearing:** (check one)

☐ Individual

☒ Representative

**If appearing in a representative capacity, name of the company, association or other entity being represented:** American Logistics Association

**FISCAL YEAR 2013**

federal grant(s)/ contracts	federal agency	dollar value	subject(s) of contract or grant
None			

**FISCAL YEAR 2012**

federal grant(s)/ contracts	federal agency	dollar value	subject(s) of contract or grant
None			

**FISCAL YEAR 2011**

Federal grant(s)/ contracts	federal agency	dollar value	subject(s) of contract or grant
None			

**Federal Contract Information:** If you or the entity you represent before the Committee on Armed Services has contracts (including subcontracts) with the federal government, please provide the following information:

Number of contracts (including subcontracts) with the federal government:

Current fiscal year (2013): 0 ;  
 Fiscal year 2012: 0 ;  
 Fiscal year 2011: 0 .

Federal agencies with which federal contracts are held:

Current fiscal year (2013): none ;  
 Fiscal year 2012: none ;  
 Fiscal year 2011: none .

List of subjects of federal contract(s) (for example, ship construction, aircraft parts manufacturing, software design, force structure consultant, architecture & engineering services, etc.):

Current fiscal year (2013): none ;  
 Fiscal year 2012: none ;  
 Fiscal year 2011: none .

Aggregate dollar value of federal contracts held:

Current fiscal year (2013): 0 ;  
 Fiscal year 2012: 0 ;  
 Fiscal year 2011: 0 .

**Federal Grant Information:** If you or the entity you represent before the Committee on Armed Services has grants (including subgrants) with the federal government, please provide the following information:

Number of grants (including subgrants) with the federal government:

Current fiscal year (2013): none \_\_\_\_\_;  
 Fiscal year 2012: none \_\_\_\_\_;  
 Fiscal year 2011: none \_\_\_\_\_.

Federal agencies with which federal grants are held:

Current fiscal year (2013): none \_\_\_\_\_;  
 Fiscal year 2012: none \_\_\_\_\_;  
 Fiscal year 2011: none \_\_\_\_\_.

List of subjects of federal grants(s) (for example, materials research, sociological study, software design, etc.):

Current fiscal year (2013): none \_\_\_\_\_;  
 Fiscal year 2012: none \_\_\_\_\_;  
 Fiscal year 2011: none \_\_\_\_\_.

Aggregate dollar value of federal grants held:

Current fiscal year (2013): 0 \_\_\_\_\_;  
 Fiscal year 2012: 0 \_\_\_\_\_;  
 Fiscal year 2011: 0 \_\_\_\_\_.

**Statement of**

**Thomas T. Gordy**

**President**

**Armed Forces Marketing Council**

**before the**

**Subcommittee on Military Personnel**

**Committee on Armed Services**

**United States House of Representatives**

**November 20, 2013**

**Submitted for the record.**

**Not for publication until**

**released by the House**

**Armed Services Committee.**

Good afternoon Chairman Wilson, Ranking Member Davis and distinguished Members of the Personnel Subcommittee,

My name is Tom Gordy and I am President of the Armed Forces Marketing Council (AFMC). Thank you for the invitation to offer comments regarding the military resale services and the financial benefits they provide to support the quality of life of our service members and their families.

When the resale hearing was held last June, the commissaries and exchanges were performing very well as demonstrated by increases in sales, earnings and dividends to morale, welfare and recreation programs. Customer satisfaction was high as was associate satisfaction.

The resale systems were planning and implementing programs and initiatives to meet the changing needs and dynamics of the military community, such as the deployment of e-commerce and mobile-commerce applications. And, most importantly, they continued to offer 20 to 30 percent average savings to military families on a market basket of products.

Today, the commissaries and exchanges continue to deliver a world-class non-pay compensation benefit to military families. While there have been strong headwinds in the form of furloughs, diminishing budgets as a result of sequestration and continuing resolutions, as well as the government shutdown, the leaders and associates of the resale systems are to be commended for the great work they have done despite the fiscal challenges they have faced.

During the hearing last year, in my testimony I wrote, "in these challenging budgetary times, we are grateful that, to date, military resale continues to be viewed by

leaders both in Congress and in the Department of Defense to be a vital quality of life benefit to our military families. The support to resale has been nothing short of remarkable, particularly in light of proposals that would seek to significantly alter and/or reduce other benefits cherished by our military families.”

I wish I could offer those same comments this year, but unfortunately, the current budgetary environment has resulted in military resale becoming a target for significant cuts that would jeopardize the viability of the resale systems and the direct and indirect benefits they provide to military families.

#### **Appropriated Fund Support**

In the past year, due to budgetary constraints imposed by budget cuts, sequestration, continuing resolutions, and the government shutdown, military resale, particularly the commissaries, has become a target like every other line item in DoD's budget.

#### **DeCA Appropriation**

As you are aware, DeCA's overhead costs are supported through a \$1.4 billion appropriation. In February, the Department of Defense issued a Resource Management Directive RF-7296, which directed the Undersecretary of Defense (Personnel & Readiness) in consultation with DeCA, DoD Comptroller and OSD's Capability Assessment and Program Evaluation (CAPE) group to conduct an independent study that would identify DeCA cost reductions of 33%.

There were two parts to the RMD. The first called for cost reductions of five percent. The second part called for additional reductions of 28% that would focus DeCA's operations substantially or entirely on military personnel stationed overseas, or they could propose alternate options to achieve the 28% savings.

Cuts as described in the RMD, Part II, would undermine the value benefit for military families in the following ways:

- Closing or substantially reducing the number of CONUS commissaries would lead to higher prices and loss of benefit in both the remaining remote and overseas stores. DeCA negotiates lower prices for products based on the current volume. Closing CONUS stores would reduce volume by up to 70%. This will lead to significant price increases due to the loss of economies of scale, and manufacturers will no longer be able to provide promotions and coupons that further enhance the savings benefit.
- Closing the majority of CONUS stores would eliminate the benefit for millions of families, breaking a commitment that has been made to every service member. 90% of active duty families shopped the commissary last year, benefiting from the lower prices they offer. The loss of these savings would be akin to a pay cut and would undermine financial and personal readiness of military personnel.
- The 5% surcharge placed on goods purchased in the commissaries funds construction and maintenance of commissary facilities. Annually, that equates to nearly \$300 million of investment on the part of military families into their own benefit. If CONUS stores are closed, there would be a loss of 70% of the surcharge. OCONUS and remote CONUS stores do not generate enough

surcharge revenues to pay for their own maintenance and rely on surplus surcharge revenues generated by CONUS stores, particularly those on larger bases and those located in metropolitan areas like Ft. Belvoir. Closing CONUS stores would leave a deficit in the maintenance accounts for remaining stores, which would lead to operational challenges going forward.

- Because of the 5% surcharge, military patrons have contributed over \$6 billion to fund the construction and maintenance of commissaries world-wide. Closing CONUS commissaries would essentially rob military families of the benefit they built.

We understand some options have been put forward that would keep stores from closing. While we applaud the creative efforts to meet the cuts called for by the RMD without closing stores, most will result in a diminished benefit for military patrons through higher prices and additional surcharges. Such proposals include:

- Elimination of second destination transportation funding and increasing prices by 2 to 3 percent on all products world-wide to fund overseas shipping.
- Development of the enhanced commissary model, which would allow the commissary to sell products, such as wine, beer and health and beauty items at a profit to offset the cost of operations. This would be in conflict with the exchanges whose lost sales would result in lower dividends to fund quality of life programs.
- Increasing the surcharge from 5% up to 10%.

Essentially each one of these proposals will shift the cost of providing for military families from the taxpayer to the families themselves, to the tune of \$450 million per year.



We question why cuts of this magnitude are necessary when you consider the following:

- DeCA continues to meet its mission in an efficient manner while earning clean audit opinions every year for the past 11 years.
- Next to healthcare, the commissary benefit is the most cherished of benefits to service members and their families. Last year, 98 million customer transactions took place in the commissaries - an increase of 1.6 million from 2011 and the second highest number in DeCA's history - demonstrating that the commissary benefit is very relevant to today's military families in CONUS and OCONUS.
- DeCA's 2012 customer satisfaction index is 81, as measured independently by the the American Customer Satisfaction Index Survey. The industry average is 76 and only one grocer surpassed DeCA in 2012.
- The commissaries save DoD nearly \$180 million by off-setting cost of living adjustments and reducing overseas shipping costs by approximately \$40 million. They support retention as well, which reduces recruitment and training costs.
- As stated above, 90% of active duty personnel stated they shopped the commissary last year, demonstrating that this benefit is utilized by and supports the active force.
- Last year, DeCA provided approximately \$2.7 billion in savings benefit to families at a cost of \$1.4 billion, nearly 2-to-1 return on investment. If you consider, ancillary benefits to the Department of Defense by off-setting costs elsewhere in the budget, the ROI is much higher.

- Over 60% of DeCA employees are military affiliated - Guard, Reserve, dependents and veterans - helping to support major Department and White House initiatives, while providing jobs that are transferable for military spouses.

Through previous efficiency efforts, DeCA's budget, in real dollars, has remained flat for over a decade, at a time when other benefits, and the DoD budget in general, have experienced double- to triple-digit growth. Because of DeCA's steadfast long term efficiency efforts, it is in a situation where there is very little room for additional cuts.

DeCA and its past efficiency efforts should be held up as an example to encourage efficiencies within other agencies; a failure to reward these efforts may send an unintended message to other agencies to not implement efficiencies or reduce costs until required to do so.

We were encouraged to hear over the summer that the Department may consider a reduction in the cuts from 28% to something lower. However, in recent weeks, we understand that the Joint Staff has asked DeCA to look at cutting its budget by 33 to 66%.

We understand that this recent look is driven by budget cuts caused by the sequester and ongoing continuing resolutions, problems that only Congress can fix. If the commissaries are to remain viable and deliver a non-pay compensation benefit to military families, Congress must act to avert the cuts and relieve the pressure on DoD to achieve a budget number that adequately funds the Department and meet its national security goals.

**Overseas Shipping Costs**

The other area of concern for budget cuts is overseas shipping of products to commissaries and exchanges. Known as Second Destination Transportation or Service Wide Transportation (SDT/SWT), this funding ensures that quality, American-made products are available to service members and their families serving overseas at a price equivalent to those in CONUS. In other words, it ensures military families are not penalized for serving overseas by higher prices and inferior products. A white paper is enclosed as Exhibit I, which further explains SDT/SWT and the impact of the loss of that funding would have on military families, the services and American producers.

In recent weeks there have been discussions about cuts or elimination to not only DeCA's overseas shipping funds, but also for AAFES'. While these cuts may provide immediate relief to the bottom line of the services who fund SDT/SWT, there will be offsetting increased costs elsewhere in the budget, not to mention the adverse impact it would have on military families.

I would note, however, that the exchanges and DeCA, through the Cooperative Efforts Board, have found efficiencies to reduce shipping costs through partnering together and coordinating shipments to common destinations around the world. We applaud these efforts and look forward to continued reduced costs through efficiencies going forward. However, the discussion that SDT/SWT should be eliminated insinuates that military families essentially should be taxed in order to offset the costs of overseas shipping.

As current law requires appropriated funds to be used to pay for SDT/SWT, we hope that no changes to that law would be forthcoming in order to protect the resale benefit for families overseas.

#### **Legislative & Regulatory Issues**

While the major challenges facing military resale are budgetary in nature, there are a few legislative and regulatory issues that we believe could have an adverse effect on the benefit and the families they serve.

#### **Sustainability & Local Procurement Provision**

The Armed Forces Marketing Council greatly appreciates the interest of the Members of the Subcommittee in the military resale benefit as was demonstrated in the H.R. 1960, *National Defense Authorization Act for Fiscal Year 2014*.

As the bill continues its hopeful progress towards passage, the Council would like to offer comment on Section 632, entitled *Purchase of Sustainable Products, Local Food Products, and Recyclable Materials for Resale in Commissary and Exchange Store Systems*. While a noble effort, the requirements imposed under Section 632 would have adverse consequences on commissaries, the exchanges and the families they support.

We are very concerned that if the provision becomes law, it would impose significant costs on the resale systems and lead to higher prices on the patron due to the increased operational costs as well as limited supply of required products, effectively reducing the value and savings of the benefit for military families.

Supporting sustainable practices is an important endeavor; however, it should be noted that there is no certification for sustainable products. This provision would burden the Department of Defense through the Defense Commissary Agency and military exchange systems, with the role of defining, identifying and certifying sustainable products.

The burden of establishing a program for identifying sustainable products would require numerous hours of inspecting and certifying producers to ensure their production means meet the program's definition of sustainability.

The role of the commissaries and exchanges is to offer military families a non-pay compensation benefit by offering significant savings on name-brand products that military families desire. The products on the shelf are there because the patrons have voted with their purchasing dollars. It is the free market at work where demand has driven the supply. As patrons have become more health- and environmentally-conscious, the product lines have followed.

It should be noted that military resale already procures products and services from the local economy where there is a demand, and where such local procurement makes economic sense to service members and the resale organizations. In general, products sold in the military stores are sourced from within the competitive market that delivers the best value and greatest savings benefit for military families.

History has shown that mandates that interfere with market forces drive up costs that are eventually borne by service members and restrict consumer choice. As an example, a prior congressionally-mandated initiative to require local procurement of

alcohol beverages on Guam, and not from the competitive market, resulted in 20% to 40% price increases to the military community. Congress overturned that mandate.

Additionally, military resale already has robust programs focused on sustainability - they range from construction, to energy conservation, as well as the sale of environmentally-friendly products within the store.

Sec. 632 would impose another costly layer of bureaucracy to formalize and validate what essentially is already being done to meet consumer demand when and where it makes economic sense.

At a time when the DoD is already struggling to fund current programs within its limited budget, and DeCA is being asked to cut its budget by 33%, this initiative would add an additional unfunded expense and burden to an already challenging situation.

Lastly, while Sec. 632 proposes to impose purchasing requirements on the resale systems, it effectively imposes a purchasing requirement on military families, whose product choices will become limited, resulting in families paying higher prices on qualifying products. Military families are already being asked to give up pay and benefits in the name of deficit reduction. Sec. 632 would further erode the benefit package for service members by reducing the savings in the commissaries and exchanges.

#### **Bangladesh Fire & Safety Accord**

In response to disasters at garment factories in Bangladesh, Members of Congress have drafted language requiring the military exchanges to sign on to the

Accord on Fire and Building Safety in Bangladesh, which is purposed to ensure safe working conditions for Bangladesh's garment workers.

On the surface, this is a good measure. However, the devil is in the details. The Accord would require signers to pay up to \$500,000 per factory to update safety measures, but there is no accountability for the money. Additionally, the accord would expose signers to liability by making retailers responsible for the safety of the factories.

It should be noted that, while this accord is signed by garment brands and retailers mostly located in the European Union, most American companies have withheld signing the accord because of the liability exposure and lack of oversight.

There is an alternative to the Accord formed by American companies that is making great progress and meeting goals ahead of the Accord. The Alliance for Bangladesh Worker Safety is the North American alternative that is legally binding and will provide up to \$100 million for worker safety in Bangladesh.

The Armed Forces Marketing Council would encourage the Committee to review the alternatives and consult with DoD and the exchanges on the best alternative for all concerned.

#### **Armed Services Exchange Regulations**

To ensure military exchanges remain relevant to the military patron, we encourage DoD and the Committee to overhaul the Armed Services Exchange Regulations, or ASER.

Current ASER are out of date and, in some instances, no longer apply due to changes in the market place. For instance, the ASER limit cars that can be sold to

vehicles that have 75% of their parts made in the USA and/or Canada. Today, only 17 vehicles meet those requirements while over 90 American-brand (Ford, GM, Chrysler) vehicles, including the iconic Ford Mustang, would be prohibited under ASER except that they are American-badged vehicles. However, top-selling foreign-badged cars such as the Toyota Camry meet or exceed the 75% requirement, but are prohibited. Because ASER have not been updated to reflect changes in the auto industry, every year that goes by, patron choice becomes more and more limited.

Therefore, we hope that over the next year the DoD would submit for to the Committee for review and approval an updated version of ASER that reflects today's retail environment and the products available.

#### **Concessionaire Operations**

Recently, the Armed Forces Marketing Council was made aware of an exchange concessionaire selling named brand groceries on a military base. This unprecedented move is concerning in that it is a private retailer competing on a military base against the commissaries. Historically, the Council has taken a position against resale agencies taking actions viewed as detrimental to other resale systems.

We encourage the committee and DoD to look into this development to determine the impact on the commissaries and exchanges.

#### **Conclusion**

Chairman Wilson, I wish I could say the future of military resale is bright. But with shrinking budgets and the increased demands for efficiencies beyond those that



have already been achieved, the future of this important non-pay compensation benefit lies in your hands and hands of the rest of Congress.

Military resale leaders at DeCA and the exchange systems and the employees they oversee are doing their best everyday to deliver a world-class benefit to our military families. I want to be clear that, in the view of the Armed Forces Marketing Council, military resale is not broken - it is not a problem that needs to be fixed.

In fact, they do their part, working with industry, to become more efficient so they may lower costs and find ways to continue providing significant savings to military families. It is the nature of their business that they do so.

But what is being asked of them to cut goes beyond efficiencies to a real degradation and/or elimination of the benefit for military patrons, particularly those in CONUS.

The loss of the benefit in CONUS will lead to a loss of benefit to patrons overseas. Some view the commissaries and exchanges as isolated stores scattered around the world at each base. But each store is interdependent on the others to provide economies of scale, lower prices, and funds for recapitalization and maintenance. If there is a breakdown in that interdependence, smaller, remote and OCONUS stores will have a very difficult time surviving. And it is in those locations where the benefit is needed the most.

While we are sympathetic to the plight of the Department of Defense and the budgetary challenges it faces, we are also aware and sympathetic to the fact that reductions in taxpayer dollars will get passed on to the military families in the form of

higher prices and lower quality, or complete loss of benefit. In other words, it would be taxing military families for the delivery of their own benefit or breaking faith with them.

Some have stated that this benefit is no longer relevant. I would point them to what happened on October 1<sup>st</sup> in the commissaries. On that day, the commissaries were opened in order to sell as much perishable products as possible before the stores closed as part of the government shutdown.

On that day, there was a run on the commissaries. Families flocked to the stores as if a major blizzard or hurricane were coming, emptying shelves of almost all products.

If this benefit did not matter to families, including those in metropolitan areas, then that would not have happened. But military families rely on this benefit as part of their compensation and they took advantage of their benefit before it closed indefinitely.

In our view, military families have sacrificed enough over the past 12 years. Asking them to sacrifice more, or to insinuate or allege to them that without them sacrificing their benefits that their service member will not be adequately equipped or trained, is in our view abhorrent. But that is the message being put forth.

Mr. Chairman, we are confident that this subcommittee, under your leadership, will continue to stand firm to protect this important benefit for our military families. Thank you for the opportunity to share our thoughts today and I look forward to your questions.

## EXHIBIT I

SERVICE WIDE TRANSPORTATION /SECOND DESTINATION TRANSPORTATION

**By law, appropriations are required to fund second destination transportation costs for shipping goods overseas. This requirement recognizes Congress's intent to keep faith with service members and their families wherever they are located, ensuring equity for all service members. It also ensures service members and their families stationed overseas are afforded a comparable selection of goods and prices to their U.S. counterparts.**

- U.S. goods provided through on-base venues reduce service member reliance on local overseas economies thereby reducing exposure to force protection risks.
- U.S. goods through on-base venues are needed when there are no shopping alternatives outside the gate for our service members as in Guantanamo Bay, Cuba and Djibouti, Africa.
- U.S. goods, inspected by the FDA, ensure service member's health and safety vice reliance on less-regulated and potentially unsafe products in certain overseas communities.
- SDT/SWT support ensures that exchanges support our troops in contingency areas without cost being a primary motive.

**A loss of SWT/SDT, to be substituted with non-appropriated funding (NAF), will have an immediate and adverse impact to overseas service members, to include higher prices for all service members. It will drive costs in other areas of the government, such as military postal system. It will affect U.S. businesses and U.S. jobs.**

- NAF business rules will sway towards the most efficient sourcing of products and likely result in rationalizing of overseas products assortments. It will force review and decisions about local overseas product sourcing to keep costs down and likely reduce the breadth of assortment, and therefore choices to service members.
- Service members in overseas areas with reduced choices will utilize military postal system, at government cost, to overcome any loss in products/choices they need and desire, essentially substituting SDT support with other O&MN funds - this is less efficient than leveraging the economies of scale that military resale provides through its distribution channels.
- Military Exchanges operate using best business practices and focus on internal efficiencies as a matter of course. There is little room to garner significant efficiencies to mitigate impacts from increased NAF expenses taking on the burden of any significant SWT/SDT loss. The SWT/SDT support is an input in a business model that drives three outputs - customer savings, MWR support, and customer shopping experience/choices. A reduction in this input creates an imbalance requiring a change in one or all of the three outputs reducing today's exchange benefit and, depending on magnitude, risk future viability of military resale.
- Reductions in the U.S. products shipped overseas will have an immediate impact on the U.S. suppliers and affect U.S. jobs. Roughly a third of resale sales are generated outside the continental United States, equating to approximately \$6 billion in American-made products.
- Most SWT/SDT dollars are transferred to US TRANSCOM to fund overseas shipping, supporting its lift capabilities. A robust program of military resale overseas shipping supports the military transportation system during peacetime ensuring viability of the industrial base and military readiness during war time.



## Thomas T. Gordy

President, Armed Forces Marketing Council



Tom Gordy serves as the President of the Armed Forces Marketing Council, a position he has held since March 2008. In this role, he works to support and enhance the military resale benefit for military families by engaging with congressional and military resale industry leaders to address issues of concern to the members of the Council.

Prior to being appointed to his position at AFMC, Tom worked as a Senior Strategic Communications Consultant for The Wexford Group/CACI supporting the congressional and public affairs directorates of the Joint Improvised Explosive Device Defeat Organization.

In January 2001, Tom began a six-year career on Capitol Hill, serving as a Communications Director, Defense Policy Advisor, and Chief of Staff to two successive Members of Congress representing Virginia's Second Congressional District, which includes Virginia Beach, Norfolk(part), Hampton(part) and the Eastern Shore.

Tom is a native of Monroe, Louisiana, and alumni of the University of Louisiana at Monroe, graduating in May 1995 with a Bachelors of Business Administration.

While in college, Tom served as a minister of youth and pastor at various churches in northeast Louisiana. Following graduation, he and his wife Theresa moved to Juneau, Alaska where he served as Associate Pastor at Glacier Valley Baptist Church. Living in Juneau, the state capitol, Tom became involved in politics, which led to a career change in 1998.

In June 1998, Tom and his family moved to Virginia Beach, Virginia where he enrolled in the Masters of Arts in Political Management program at Regent University. He completed his degree in December 2003.

In November 2002, Tom was commissioned as a U.S. Navy Reserve Public Affairs Officer. From March 2009 to February 2010, Tom was mobilized to active duty and served in Iraq as the Legislative Affairs Officer and Deputy Public Affairs Officer to U.S. Army Gen. Ray Odierno, Commander, Multi-National Forces-Iraq.

Tom's awards include Army Commendation Medal, Joint Service Achievement Medal, Joint Meritorious Unit Award, National Defense Service Medal, Iraq Campaign Medal, Global War on Terror Service Medal, Sea Service Deployment Ribbon, Armed Forces Reserve Medal with "M" Device, and Navy Expert Pistol Marksmanship Medal.

Since October 2008, Tom has successfully owned and managed River Woods Retreat, a mountain-side log cabin vacation rental in Virginia's Shenandoah River Valley.

Tom is married to the former Theresa Mayo of New Iberia, LA. He and Theresa have one daughter, Sarah, and live in Northern Virginia.

**DISCLOSURE FORM FOR WITNESSES  
CONCERNING FEDERAL CONTRACT AND GRANT INFORMATION**

**INSTRUCTION TO WITNESSES:** Rule 11, clause 2(g)(5), of the Rules of the U.S. House of Representatives for the 113<sup>th</sup> Congress requires nongovernmental witnesses appearing before House committees to include in their written statements a curriculum vitae and a disclosure of the amount and source of any federal contracts or grants (including subcontracts and subgrants) received during the current and two previous fiscal years either by the witness or by an entity represented by the witness. This form is intended to assist witnesses appearing before the House Committee on Armed Services in complying with the House rule. Please note that a copy of these statements, with appropriate redactions to protect the witness's personal privacy (including home address and phone number) will be made publicly available in electronic form not later than one day after the witness's appearance before the committee.

**Witness name:** Thomas Gordy

**Capacity in which appearing:** (check one)

☒ Individual

☐ Representative

**If appearing in a representative capacity, name of the company, association or other entity being represented:** Armed Forces Marketing Council

**FISCAL YEAR 2013**

federal grant(s)/ contracts	federal agency	dollar value	subject(s) of contract or grant
none			

**FISCAL YEAR 2012**

federal grant(s)/ contracts	federal agency	dollar value	subject(s) of contract or grant
none			

**FISCAL YEAR 2011**

<b>Federal grant(s) / contracts</b>	<b>federal agency</b>	<b>dollar value</b>	<b>subject(s) of contract or grant</b>
none			

**Federal Contract Information:** If you or the entity you represent before the Committee on Armed Services has contracts (including subcontracts) with the federal government, please provide the following information:

Number of contracts (including subcontracts) with the federal government:

Current fiscal year (2013): N/A;  
 Fiscal year 2012: N/A;  
 Fiscal year 2011: N/A.

Federal agencies with which federal contracts are held:

Current fiscal year (2013): \_\_\_\_\_;  
 Fiscal year 2012: \_\_\_\_\_;  
 Fiscal year 2011: \_\_\_\_\_.

List of subjects of federal contract(s) (for example, ship construction, aircraft parts manufacturing, software design, force structure consultant, architecture & engineering services, etc.):

Current fiscal year (2013): \_\_\_\_\_;  
 Fiscal year 2012: \_\_\_\_\_;  
 Fiscal year 2011: \_\_\_\_\_.

Aggregate dollar value of federal contracts held:

Current fiscal year (2013): \_\_\_\_\_;  
 Fiscal year 2012: \_\_\_\_\_;  
 Fiscal year 2011: \_\_\_\_\_.

**Federal Grant Information:** If you or the entity you represent before the Committee on Armed Services has grants (including subgrants) with the federal government, please provide the following information:

Number of grants (including subgrants) with the federal government:

Current fiscal year (2013): N/A;  
 Fiscal year 2012: N/A;  
 Fiscal year 2011: N/A.

Federal agencies with which federal grants are held:

Current fiscal year (2013): \_\_\_\_\_;  
 Fiscal year 2012: \_\_\_\_\_;  
 Fiscal year 2011: \_\_\_\_\_.

List of subjects of federal grants(s) (for example, materials research, sociological study, software design, etc.):

Current fiscal year (2013): \_\_\_\_\_;  
 Fiscal year 2012: \_\_\_\_\_;  
 Fiscal year 2011: \_\_\_\_\_.

Aggregate dollar value of federal grants held:

Current fiscal year (2013): \_\_\_\_\_;  
 Fiscal year 2012: \_\_\_\_\_;  
 Fiscal year 2011: \_\_\_\_\_.





---

**DOCUMENTS SUBMITTED FOR THE RECORD**

NOVEMBER 20, 2013

---





Statement for the Record

of the

**NATIONAL MILITARY FAMILY ASSOCIATION**

Before the

**Subcommittee on  
Military Personnel**

of the

**UNITED STATES HOUSE OF REPRESENTATIVES  
ARMED SERVICES COMMITTEE**

**November 20, 2013**

**Not for Publication  
Until Released by  
The Committee**

The National Military Family Association is the leading non-profit organization committed to improving the lives of military families. Our over 40 years of accomplishments have made us a trusted resource for families and the Nation's leaders. We have been at the vanguard of promoting an appropriate quality of life for active duty, National Guard, Reserve, retired service members, their families and survivors from the seven uniformed services: Army, Navy, Air Force, Marine Corps, Coast Guard, Public Health Service and the National Oceanic and Atmospheric Administration.

Association Volunteers and Representatives in military communities worldwide provide a direct link between military families and the Association staff in the Nation's capital. These volunteers are our "eyes and ears," bringing shared local concerns to national attention.

The Association does not have or receive federal grants or contracts.

Our website is: <http://www.MilitaryFamily.org>.

### Commissaries and Exchanges

The National Military Family Association appreciates the House Armed Services Committee Military Personnel Subcommittee holding a hearing on the Military Resale Programs and your commitment to preserving these quality programs for military families, especially during this era of increased budget austerity.

The National Military Family Association has been a consistent advocate for the military resale system, through the commissary and exchanges for military families and retirees. The resale system is a vital part of the compensation package for service members and retirees, and is valued by them, their families, and survivors. Our surveys indicate that military families consider the commissary one of their most important benefits. In addition to providing average savings of more than 30 percent over local supermarkets, commissaries provide a sense of community. Shoppers become informed and educated at commissaries, and gain access to services. Commissaries hire spouses, veterans and other family members as employees. Exchanges put money back into installation Morale, Welfare and Recreation programs that provide vital services to our service members, their families and survivors. The savings generated, using the resale system, are essential to the financial readiness of our military families and financial readiness translates into mission readiness.

In the 2010 and 2011 DoD Military Family Life Project surveys, 41 percent of military spouses reported concern about their financial condition. In the 2011 survey, 29 percent of spouses reported that they felt less comfortable with their financial condition compared to the previous 12 months, while 28 percent reported feeling more comfortable. The 30 percent savings families receive when shopping at the commissary helps them stretch limited food dollars.

*"Making it on junior enlisted pay means we have a strict budget and there isn't a lot left over. Every penny counts and living in an overseas location makes things even tighter. One of the ways we are able to make ends meet is shopping at the commissary. We simply cannot afford to shop off post. Taking away the savings we get at the commissary would catastrophically hurt our standard of living."*

Commissaries and exchanges provide a necessary financial remedy to the challenges presented by commitments to military service and all that it brings. Housing searches and moves are not always streamlined or easy. The contents of refrigerators and freezers are discarded and repurchased each time. Furniture is repurposed or replaced due to changes in space allocation or damages incurred in the move. Commissaries and exchanges are valued resources to cushion the blow of these occurrences. The availability and types of retail resources vary vastly from one community to the next and the commissary and exchange are often some of the only consistent sources of food and household items at affordable prices. Commissaries are particularly crucial overseas, in markets where the cost of living is high, and in communities with insufficient infrastructure to support the military population nearby. They also support families' financial well-being when a family's income is reduced during periods of spouse unemployment during transition and relocation.

*"My husband and I are stationed in a remote part of Nevada where I have been unable to find a job. I have a degree and have loads of work experience, but due to the location of the base there aren't job opportunities for me. We live off of one income and the benefits*

*provided by the substantial savings through shopping at the commissary help make up for my lack of income."*

Commissaries serve as a community focal point for many currently-serving and retiree families. In many ways, they serve as a community center or a gathering place, where shoppers can access information about programs, services, activities and events on their installation. This can include nutritional and health information and a valuable opportunity to connect with other military families.

*"We need our commissaries for several reasons. The obvious assistance it provides us on our grocery bills. But it is also camaraderie in the military. It's a community. It helps keep us together and helps us feel connected. It may sound frivolous, but when we are alone (especially in the National Guard...with not a lot of military in our community) any connection with people who understand and appreciate our lifestyles is priceless..."*

National Guard/Reserve on-site sales provide service members that live in areas far from existing commissaries a much needed opportunity to use the benefit. Service members are able to pre-order some items and buy in large quantities at the same savings rate or better than those who can shop at a local commissary regularly. National Guard and Reserve Component families have benefitted greatly from the addition of case lot sales. According to Army Staff Sgt. Jenny Mae Pridemore, quoted in the Charleston Daily Mail,

*"We don't have easy access to a commissary in West Virginia and with the economy the way it is everyone is having a tough time. The soldiers and the airmen really need this support."*

On average, case lot sales save National Guard and Reserve families between 40 and 50 percent compared to commercial prices. However, the Guard/Reserve on-site sales were suspended indefinitely due to sequestration. ***Our Association requests that Guard/Reserve on-site sales resume as soon as possible.*** The opportunity to engage remote members of the military community is an important one, and the Guard and Reserve communities have been particularly hard hit by sequestration and its financial consequences. Guard/Reserve on-site sales provide some cost-relief and an opportunity for outreach.

The commissary and exchange systems employ over 50,000 military family members around the world, adding \$800 million to military families' pocketbooks. The Defense Commissary Agency's (DeCA) 2012 performance report indicates that

*"Nearly 64 percent of its workforce has a direct connection to the military as military spouses, children of service members, veterans, retirees, and Guard and Reserve members."*

The military exchange system provides multi-faceted savings directly to consumers and to the community as a whole. The exchange provides valuable cost savings to members of the military community, while reinvesting their profits in essential Morale, Welfare and Recreation (MWR) programs. The benefit saved taxpayer dollars by reducing overseas cost of living adjustments for military and civilian personnel by hundreds of millions of dollars, generated \$300 million in

dividends to support military quality of life programs, sustained the readiness of our military lift capabilities for units training in transport of resale goods, helped retain highly-skilled and well-trained service members by providing a benefit they care about, and supported the financial readiness of our military families.

The military resale system is a strong benefit and provides an incredible return on investment for the taxpayer. Combined, DeCA and the exchange systems receive \$1.5 billion annually and with those dollars they generate \$5.6 billion in benefit savings. That means for every dollar spent to support military resale, the systems generate nearly \$4 in benefits. That is a very good deal for taxpayers. Our Association strongly believes that every effort must be made to ensure funds for community support are preserved, especially as facilities are down-sized or closed overseas.

We recognize that in this era of budget cuts that cost savings must be found. However, military families have sacrificed and served loyally and dependably through every storm, including sequestration and the October 1 government shutdown. Military family members, survivors, and veterans who worked at the commissaries were shut out from earning a paycheck, while shoppers were forced to reprioritize their spending. The last day the commissaries were open before the shutdown showed how critical the savings are to military families with double the normal sales volume. Photos of empty commissary shelves and meat counters went viral days before the shutdown began as families filled their freezers, not knowing how long it would last, and doing everything they could to try to make their food dollars count.

We believe that any proposed change to the current funding structure for the commissary system be evaluated as to its effect on the savings provided to the military family customer. Changes to the exchange system must also preserve MWR funding levels in military communities.

Our Association is a member of the Defense Commissary Agency Patron Council and a Valued Associate member of The Coalition to Save Our Military Shopping Benefit which now represents over two million service members, veterans and their families. We are also a strong proponent of the military exchange system. Military families will be hit three times by any reduction in commissary and exchange benefits - the loss of good paying jobs that are sensitive to the challenges of military life, the loss of the savings they receive by shopping in commissaries and exchanges, and the downsizing of MWR programs that were previously funded through reinvestment of exchange profits. Our Association remains committed to protecting the commissary and exchange benefits that are essential to the quality of life of our service members, retirees, families and survivors, as well as the readiness of our force.

***Our Association urges Congress to continue to protect the savings provided to military families through the commissary and military exchanges, as well as the exchange-generated MWR revenue which supports a healthy military community.***





---

---

**WITNESS RESPONSES TO QUESTIONS ASKED DURING  
THE HEARING**

NOVEMBER 20, 2013

---

---



**RESPONSE TO QUESTION SUBMITTED BY MRS. DAVIS**

Mr. SHULL. Staff from the Office of the Under Secretary of Defense for Acquisition, Technology and Logistics met with committee staff to relay our concerns and to ensure that the language included in Section 713 of the National Defense Authorization Act for Fiscal Year 2014 was both acceptable to and achievable by the Department. [See page 21.]



---

---

**QUESTIONS SUBMITTED BY MEMBERS POST HEARING**

NOVEMBER 20, 2013

---

---



#### QUESTIONS SUBMITTED BY MR. WILSON

Mr. WILSON. Has the Department of Defense re-opened discussions on consolidating exchanges? If so, what appropriated dollar savings does the Department garner from this initiative? Mr. Shull, Mr. Bianchi, and Mr. Dillon, has there been further discussion on developing hybrid stores selling merchandise and groceries, similar to Walmart and Target? Is this something that should be explored? Mr. Nixon and Mr. Gordy, what are your perspectives regarding an exchange consolidation or developing a hybrid model?

Ms. WILLIAMS. No, the Department has not re-opened discussions on consolidating exchanges. Finding more effective and efficient ways to operate is critical, and we will continue to seek efficiencies within the military resale systems.

Mr. WILSON. Has the Department of Defense re-opened discussions on consolidating exchanges? If so, what appropriated dollar savings does the Department garner from this initiative? Mr. Shull, Mr. Bianchi, and Mr. Dillon, has there been further discussion on developing hybrid stores selling merchandise and groceries, similar to Walmart and Target? Is this something that should be explored? Mr. Nixon and Mr. Gordy, what are your perspectives regarding an exchange consolidation or developing a hybrid model?

Admiral BIANCHI. NEXCOM is neither aware, nor is a participant in discussions for developing hybrid stores selling merchandise and groceries similar to Walmart and Target. These commercial formats benefit from one-stop shopping and cost synergies driven by an integrated business strategy with a hybrid concept as the end state. This is unlike military resale where commissary and exchange stores are mature businesses operating independently. Creating military resale hybrids would require significant investments. For example, commissaries and exchanges are often not co-located on installations nor operate on similar information technology platforms. Consequently, military resale would require significant capital investments in construction, assuming available federal land, as well as investments in technology and other areas to retrofit and re-purpose stores to a hybrid model. Similarly, using only one of two existing separate stores where the commissary and exchange are apart, would require reducing available exchange and commissary products thereby generating business risks while diluting the current non-pay compensation resale benefit.

Navy has successfully operated a limited number of hybrids in overseas locations—NEXMARTs—which sells both exchange and commissary products. NEXMARTs success is driven by their creation as hybrids with appropriations for the commissary portion of the store. Less clear in the question is whether an explored hybrid model will be wholly non-appropriated funded, in which case price increases would be needed to support the model. This would change and dilute the current resale non-pay compensation benefit. NEXCOM does not believe hybrid stores, writ large, are a viable option to be explored for the current commissary and exchange benefits.

Mr. WILSON. How many lifestyle centers have been completed and what is the occupancy rate? What type of stores are occupying the life style centers? Are any of them in direct competition with the exchange store or the commissary for products?

Mr. SHULL. Construction on one Lifestyle Center, Freedom Crossing at Ft. Bliss, has been completed. Its occupancy is currently 83%. The center is comprised of a variety of operations including AAFES direct operations such as the Exchange, name brand fast food operations, and traditional concession activities. Also included are dining and entertainment operations with brands such as The Grand Theater, Buffalo Wild Wings, and Texas Road House. In addition, there are complementary retailers such as Under Armour, Things Remembered, Game Stop, Patriot Outfitters, Dollar Tree, and others. All products sold complement the Exchange and Commissary stock assortments.

Mr. WILSON. What is the feasibility and impact of the commissary operating under non-appropriated funds instead of appropriated funds? Will DeCA still be able to provide savings to military patrons? Right now the commissary provides approximately 30% savings to patrons, can those savings be reduced to 25%–28% and, if so, what actions would need to be taken?

Mr. JEU. Currently commissaries sell merchandise at cost plus a 5% surcharge. The surcharge use is limited to building and maintaining commissaries as well as commissary equipment purchase. Current savings average 30.5% compared to commercial retailers. If commissaries were operated partially funded through other than appropriated funds, DeCA would be compelled to institute a pricing structure similar to that of commercial grocers, with the resulting revenue used to offset the loss of the appropriation. Patron savings would be reduced dependent on the amount of cost recovery necessary. Numerous changes to legislation would be required to allow the commissary system to operate under a cost recovery model.

Mr. WILSON. Has the Department of Defense re-opened discussions on consolidating exchanges? If so, what appropriated dollar savings does the Department garner from this initiative? Mr. Shull, Mr. Bianchi, and Mr. Dillon, has there been further discussion on developing hybrid stores selling merchandise and groceries, similar to Walmart and Target? Is this something that should be explored? Mr. Nixon and Mr. Gordy, what are your perspectives regarding an exchange consolidation or developing a hybrid model?

Mr. DILLON. I defer to DOD on whether it has re-opened discussion on consolidation and on the issue of costs/savings of doing so. In regard to hybrid stores, I have not participated in any discussions regarding developing such stores that would sell merchandise and groceries. I don't believe this is a viable option as combining systems and facilities would result in a huge upfront cost with limited opportunities for savings in the out years. In this already constrained fiscal environment, this action could threaten the MWR dividend significantly.

